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U.S. HOUSE OF REPRESENTATIVES

DESCRIPTION OF THE ADMINISTRATION'S FISCAL YEAR 1986 BUDGET RECOMMENDATIONS UNDER THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

MARCH 11, 1985

Prepared for the use of the Committee on Ways and Means by its staff

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PREFACE

This document has been prepared for the use of the Committee on Ways and Means by its staff in conjunction with the March 15 report to the Budget Committee. This document describes the Reagan administration fiscal year 1986 budget recommendations requiring legislative action. All estimates were provided by either the administration, the Congressional Budget Office (CBO), or the Joint Committee on Taxation, and the source for each estimate is noted.

The document is divided into three parts:

Part I.—A comparative summary indicating the budget effect of the Reagan administration recommendations. This part also contains tables describing the entire budget outlook under the administration's proposal and under current law as estimated by the administration and CBO.

Part II.—A detailed description of each outlay reduction and a comparison with present law. A short statement on whom the proposal affects is also provided.

Part III.—A summary description of the revenue proposals.

The document concludes with two appendixes:

Appendix A.—A short description of the Budget and Impoundment Control Act along with several excerpts from the act.

Appendix B.—The Committee on Ways and Means' March 15, 1983, and March 15, 1984, reports to the Budget Committee.

The committee wishes to acknowledge the assistance of the Congressional Research Service and the Congressional Budget Office in preparing this document.

This material has been assembled in a limited amount of time in order that members may have all information currently available about the recommendations as soon as possible.

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PART I

Summary Tables Describing the Legislative and Regulatory Changes Recommended by the President for Programs Under the Jurisdiction of the Committee on Ways and Means and the Entire Budget Outlook Under Current Law and the Administration's Budget

TABLE 1.—CONGRESSIONAL BUDGET OFFICE ESTIMATES OF CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In millions of dollars]

Program	1985	1986	1987	1988	1989	1990
Medicare:						
Hospital insurance (HI)	0	−2,716	−3,919	−4,919	−5,799	−6,770
Supplementary medical insurance (SMI)	−10	−702	−887	−1,217	−1,542	−1,862
Net premium increase	0	−211	−714	−1,743	−3,205	−4,947
Total—Medicare	−10	−3,629	−5,520	−7,879	−10,546	−13,579
Trade adjustment assistance[1]	0	−121	−121	−121	−121	−121
AFDC	0	−105	−87	−55	−53	−45
Title XX	0	([2])	([2])	([2])	([2])	([2])
Foster care	0	−22	0	0	0	0
Pension Benefit Guaranty Corporation	−145	−184	−206	−231	−260	−294
Total	−155	−4,061	−5,934	−8,286	−10,980	−14,039
Medicaid impact of medicare proposals[3]	0	25	53	101	176	261
Medicaid impact of AFDC proposals[3]	0	−85	−120	−145	−170	−190
Food stamp impact of AFDC proposals	0	35	35	40	40	40
Total	−155	−4,086	−5,966	−8,290	−10,934	−13,928
Addendum:						
Medicare HI savings:						
By regulation	0	−1,703	−2,535	−3,190	−3,860	−4,630
By legislation	0	−1,013	−1,384	−1,729	−1,939	−2,140

[1] Authorization for both the worker and firm programs expires on Sept. 30, 1985. The administration proposes no reauthorization of either program. CBO estimates of the worker entitlement portion is $70 million for 1986 to 1990. The 1985 appropriation level for the firm program is $25 million and for the worker program is $26 million. The numbers shown in the table are CBO estimates of worker TAA entitlement payments and 1985 appropriation levels for the nonentitlement portions of the worker and firm programs.

[2] Administration has proposed no changes in social services block grant funding except that it be combined with the WIN and Community Services block grant programs. The administration proposes zero funding for those two programs. This is a combined funding reduction of $652 million in fiscal year 1986 and $681 million for fiscal year 1987.

[3] Assumes medicaid cap is not enacted.

TABLE 2.—ADMINISTRATION ESTIMATES OF LEGISLATIVE CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In millions of dollars]

Program	1985	1986	1987	1988	1989	1990
Medicare:						
Hospital insurance (HI) and supplementary medical insurance (SMI)	−20	−3,920	−5,622	−6,550	−7,651	−8,848
Net premium increase	0	−194	−712	−1,764	−3,086	−4,690
Total—Medicare	−20	−4,114	−6,334	−8,314	−10,737	−13,538
Trade adjustment assistance [1]	0	−121	−121	−121	−121	−121
AFDC	0	−180	−159	−151	−136	−129
Title XX	0	([2])	([2])	([2])	([2])	([2])
Foster care	0	−22	0	0	0	0
Pension Benefit Guaranty Corporation	−145	−184	−206	−231	−260	−294
Total	−165	−4,621	−6,820	−8,817	−11,254	−14,082
Medicaid impact of medicare proposals [3]	0	30	80	175	290	425
Medicaid impact of AFDC proposals [3]	0	−258	−445	−547	−589	−634
Food Stamp impact of AFDC proposal	0	36	37	39	40	40
Total	−165	−4,813	−7,148	−9,150	−11,513	−14,251
Addendum:						
Medicare HI savings:						
By regulation	−10	−2,045	−2,976	−3,213	−3,694	−4,205
By legislation	0	−1,158	−1,746	−2,136	−2,371	−2,622

[1] Authorization for both the worker and firm programs expires on Sept. 30, 1985. The administration proposes no reauthorization of either program. CBO estimates of the workers entitlement portion is $70 million for 1986 to 1990. The 1985 appropriation level for the firm program is $25 million and for the worker program is $26 million. The numbers shown in the table are CBO estimates of worker TAA entitlement payments and 1985 appropriation levels for the nonentitlement portions of the worker and firm programs.

[2] Administration has proposed no changes in social services block grant funding except that it be combined with the WIN and Community Services block grant programs. The administration proposes zero funding for those two programs. This is a combined funding reduction of $652 million in fiscal year 1986 and $681 million for fiscal year 1987.

[3] Assumes medicaid cap is not enacted.

TABLE 3.—CBO ESTIMATES OF MEDICARE AND AFDC BUDGET IMPACTS BY PROVISION

[By fiscal year, in millions of dollars]

	1985	1986	1987	1988	1989	1990
MEDICARE						
Hospital reimbursement reductions:						
Freeze fiscal year 1986 hospital DRG payment rates at fiscal year 1985 level (includes waivered States) [1] (Part A)	0	−1,530	−2,195	−2,665	−3,135	−3,675
50 percent reduction in indirect teaching costs adjustment (Part A)	0	−590	−810	−1,100	−1,230	−1,360
Freeze payments for direct medical education [1] (Part A)	0	−130	−280	−460	−650	−870
Freeze payments to PPS exempt hospitals [1] (Part A)	0	−40	−55	−60	−70	−75
Other provider reductions:						
Restructure limits on home health payments [1] (Part A)	0	0	0	0	0	0
Freeze limits on payments for skilled nursing facilities [1] (Part A)	0	−3	−5	−5	−5	−10
Freeze customary and prevailing charges for durable medical equipment: [1]						
Part B	0	−55	−100	−140	−190	−255
Premium offsets	0	10	20	20	25	30
Medicaid	0	0	0	−5	−5	−5
Total	0	−50	−80	−120	−170	−230
Freeze clinical lab fee schedule:						
Part B	−10	−50	−80	−235	−400	−530
Premium offsets	0	5	15	35	55	60
Medicaid	0	0	0	−5	−5	−10
Total	−10	−45	−65	−200	−355	−480
Physician payment reductions:						
Extend physician freeze for 1 year:						
Part B	0	−475	−450	−450	−475	−475
Premium offsets	0	70	85	70	65	55
Medicaid	0	−10	−10	−10	−10	−10
Total	0	−415	−370	−385	−420	−430

TABLE 3.—CBO ESTIMATES OF MEDICARE AND AFDC BUDGET IMPACTS BY PROVISION—Continued

[By fiscal year, in millions of dollars]

	1985	1986	1987	1988	1989	1990
MEDICARE						
Beneficiary related cuts:						
Delay initial eligibility for medicare by one full month:						
Part A	0	−165	−180	−195	−215	−235
Part B	0	−80	−90	−100	−115	−130
Premium offsets	0	45	60	70	80	95
Medicaid	0	25	28	30	32	36
Total	0	−175	−182	−195	−218	−234
Index part B deductible to economic index:						
Part B	0	0	−75	−190	−240	−330
Premium offsets	0	0	15	30	30	40
Medicaid	0	0	0	5	5	5
Total	0	0	−60	−155	−205	−285
Require copayment for home health visits after 20 have been provided ($4.80 in 1986) (Part A)	0	−65	−120	−130	−150	−160
Increase the part B premium to 35 percent of program costs by 1990:						
Premium increase	0	−360	−955	−2,084	−3,648	−5,510
Decrease due to other part B savings	0	149	241	341	443	563
Medicaid	0	10	35	86	159	245
Total	0	−201	−679	−1,657	−3,046	−4,702
Other proposals:						
Extend the medicare working aged provision to employees over age 69:						
Part A	0	−190	−270	−300	−340	−380
Part B	0	−40	−90	−100	−120	−140
Premium offsets	0	5	15	15	15	15
Total	0	−225	−345	−385	−445	−505
Optional medicare vouchers	0	0	0	0	0	0

TABLE 3.—CBO ESTIMATES OF MEDICARE AND AFDC BUDGET IMPACTS BY PROVISION—Continued

[By fiscal year, in millions of dollars]

	1985	1986	1987	1988	1989	1990
MEDICARE						
Miscellaneous proposals (simplify processing of part A claims; eliminate separate carrier for RRB):						
Part A	0	−3	−4	−4	−4	−5
Part B	0	−2	−2	−2	−2	−2
Total	0	−5	−6	−6	−6	−7
Total:						
Part A	0	−2,716	−3,919	−4,919	−5,799	−6,770
Part B	−10	−702	−887	−1,217	−1,542	−1,862
Net premium	0	−211	−714	−1,743	−3,205	−4,947
Medicaid	0	25	53	101	176	261
Total	−10	−3,604	−5,467	−7,778	−10,370	−13,318
AID TO FAMILIES WITH DEPENDENT CHILDREN						
Require minor mothers to live with parents:						
AFDC	0	−20	−20	−20	−20	−20
Food stamps	0	10	10	10	10	10
Medicaid	0	−10	−10	−10	−10	−10
Total (net budget)	0	−20	−20	−20	−20	−20
End adult benefit when youngest child attains age 16:						
AFDC	0	−55	−55	−60	−60	−60
Food stamps	0	25	25	30	30	30
Medicaid	0	−45	−50	−50	−60	−65
Total (net budget)	0	−75	−80	−80	−90	−95
Require job search and mandatory workfare:						
AFDC benefits	0	−115	−230	−305	−350	−385
AFDC administration	0	135	265	360	390	420
AFDC net	0	20	35	55	40	35
Medicaid	0	−30	−60	−85	−100	−115
Total (net budget)	0	−10	−25	−30	−60	−80
Make administrative match a block grant:						
AFDC	0	−50	−47	−30	−13	0

TABLE 3.—CBO ESTIMATES OF MEDICARE AND AFDC BUDGET IMPACTS BY PROVISION—Continued

[by fiscal year, in millions of dollars]

	1985	1986	1987	1988	1989	1990
AID TO FAMILIES WITH DEPENDENT CHILDREN						
Total:						
AFDC	0	−105	−87	−55	−53	−45
Food stamps	0	35	35	40	40	40
Medicaid	0	−85	−120	−145	−170	−190
Total	0	−155	−172	−160	−183	−195

[1] Regulatory proposal.

Notes:
Table assumes medicaid cap is not enacted. Premium offsets are change in premiums resulting from a given proposal assuming current law premium policy. Premium income is shown in the budget as negative outlays. Totals may not add because internal components have been rounded to the nearest $5 million.

TABLE 4.—ADMINISTRATION ESTIMATES OF MEDICARE AND AFDC IMPACTS BY PROVISION

[Fiscal years; in million of dollars]

	1985	1986	1987	1988	1989	1990
MEDICARE						
Hospital reimbursement reductions:						
Freeze fiscal year 1986 hospital DRG payment rates at fiscal year 1985 level (includes waivered States) (Part A) [1]	0	−1,800	−2,491	−2,548	−2,809	−3,085
50 percent reduction in indirect teaching costs adjustment (Part A)	0	−695	−1,115	−1,430	−1,595	−1,760
Freeze payments for direct medical education (Part A) [1]	0	−150	−360	−530	−730	−940
Freeze payments to PPS exempt hospitals (Part A) [1]	0	−20	−30	−35	−45	−55
Other provider reductions:						
Restructure limits on home health payments (Part A) [1]	−5	−70	−90	−95	−105	−120
Freeze limits on payments for skilled nursing facilities (Part A) [1]	−5	−5	−5	−5	−5	−5
Freeze customary and prevailing charges for durable medical equipment (Part B) [1]	0	−50	−100	−150	−200	−250
Freeze clinical lab fee schedule (Part B)	−10	−35	−100	−325	−455	−605
Premium offset	0	7	27	71	76	82
Total	−10	−28	−73	−254	−379	−523
Physician payment reductions:						
Extend physician freeze for 1 year:						
Part B	0	−500	−425	−350	−425	−525
Premium offset	0	104	115	77	71	71
Medicaid	0	−5	−5	−5	−5	−5
Total	0	−401	−315	−278	−359	−459

TABLE 4.—ADMINISTRATION ESTIMATES OF MEDICARE AND AFDC IMPACTS BY PROVISION—Continued

[Fiscal years; in million of dollars]

	1985	1986	1987	1988	1989	1990
MEDICARE						
Beneficiary related cuts:						
Delay initial eligibility for medicare by 1 full month:						
Part A	0	−165	−195	−210	−230	−250
Part B	0	−60	−110	−120	−135	−150
Premium offset	0	13	30	26	23	20
Medicaid	0	15	20	20	20	20
Total	0	−197	−255	−284	−322	−360
Index part B deductible to economic index:						
Part B	0	0	−75	−150	−250	−350
Premium offset	0	0	20	33	42	47
Medicaid	0	0	5	10	15	20
Total	0	0	−50	−107	−193	−283
Require copayment for home health visits after 20 have been provided ($4.80 in 1986) (Part A)	0	−65	−115	−125	−135	−150
Increase the part B premium to 35 percent of program costs by 1990:						
Premium Increase	0	−332	−927	−1,992	−3,318	−4,928
Decrease due to other part B savings	0	138	215	228	232	238
Medicaid	0	10	30	75	130	195
Total	0	−184	−682	−1,689	−2,956	−4,495
Other proposals:						
Extend the medicare working aged provision to employees over age 69:						
Part A	0	−230	−350	−400	−440	−490
Part B	0	−65	−100	−115	−130	−150
Premium offset	0	14	27	25	22	20
Total	0	−281	−423	−490	−548	−620
Optional medicare vouchers:						
Part A	0	0	33	33	33	33

TABLE 4.—ADMINISTRATION ESTIMATES OF MEDICARE AND AFDC IMPACTS BY PROVISION—Continued

[Fiscal years; in million of dollars]

	1985	1986	1987	1988	1989	1990
MEDICARE						
Part B	0	0	17	17	17	17
Premium offset	0	0	−4	−4	−3	−2
Total	0	0	46	46	47	48
Miscellaneous proposals (simplify processing of part A claims; eliminate separate carrier for RRB):						
Part A	0	−3	−4	−4	−4	−5
Part B	0	−2	−2	−2	−2	−2
Total	0	−5	−6	−6	−6	−7
Totals:						
Medicare	−20	−3,920	−5,622	−6,550	−7,651	−8,848
Net premium	0	−194	−712	−1,764	−3,086	−4,690
Medicaid	0	30	80	175	290	425
Total	−20	−4,084	−6,254	−8,139	−10,447	−13,113
AID TO FAMILIES WITH DEPENDENT CHILDREN						
Require minor mothers to live with parents:						
AFDC	0	−19	−19	−20	−20	−20
Food Stamps	0	9	9	10	10	10
Medicaid	0	−22	−24	−26	−28	−30
Total (net budget)	0	−32	−34	−36	−38	−40
End adult benefit when youngest child attains age 16:						
AFDC	0	−55	−57	−58	−60	−61
Food Stamps	0	27	28	29	30	30
Medicaid	0	−79	−86	−93	−100	−107
Total (net budget)	0	−107	−115	−122	−130	−138
Require job search mandatory workfare:						
AFDC benefits	0	−197	−239	−311	−317	−319
AFDC administration	0	145	209	276	287	294
AFDC net	0	−52	−30	−35	−30	−25
Medicaid	0	−157	−335	−428	−461	−497
Total (net budget)	0	−209	−365	−463	−491	−522

TABLE 4.—ADMINISTRATION ESTIMATES OF MEDICARE AND AFDC IMPARTS BY PROVISION—Continued

[Fiscal years; in million of dollars]

	1985	1986	1987	1988	1989	1990
AID TO FAMILIES WITH DEPENDENT CHILDREN						
Make administrative match a block grant:						
AFDC	0	−54	−53	−38	−26	−23
Total:						
AFDC	0	−180	−159	−151	−136	−129
Food Stamps	0	36	37	39	40	40
Medicaid	0	−258	−445	−547	−589	−634
Total	0	−402	−567	−659	−685	−723

[1] Regulatory proposal.

Note: Table assumes medicaid cap is not enacted. In the table, premium offsets are the change in premium income resulting from a given proposal assuming current law premium policy. Premium income is shown in the budget as negative outlays.

TABLE 5.—TREASURY'S ESTIMATED BUDGET EFFECTS OF ADMINISTRATION'S REVENUE PROPOSALS

Fiscal Years 1986–1988

[Billions of dollars]

Item	1986	1987	1988	1986–88
A. Proposals involving increases in revenue:				
Hazardous Substance Response Trust Fund ("Superfund") [1]	0.6	0.7	0.7	2.0
Black Lung Disability Trust Fund [1]	.2	.2	.3	.7
Deposits of Social Security taxes by State and local governments	.4	(2)	.3	.7
Tax treatment of railroad retirement benefits	(2)	.1	.1	.2
Railroad unemployment insurance coverage	.1	.2	.2	.5
IRS user fees	(2)	(2)	(2)	(2)
IRS compliance initiative [3]		.5	1.5	2.0
Total, revenue increases	1.4	1.7	3.0	6.1
B. Proposals involving reductions in revenue:				
Enterprise zone tax incentives	−.1	−.5	−.9	−1.4
Tuition tax credit	−.4	−.6	−.9	−1.9
Education savings accounts	(2)	−.1	−.3	−.5
Dependent care tax credit	(2)	−.2	−.2	−.5
Extension of R&E tax credit	−.7	−1.3	−1.5	−3.5
Financing and administering State unemployment compensation programs	0	0	0	0
Total, revenue reductions	−1.2	−2.8	−3.8	−7.7
Grand total, revenue proposals [4]	.2	−1.1	−.7	−1.6

[1] Net of income tax offsets.

[2] Less than $50 million.

[3] These figures do not take account of the increased outlays associated with additional examination employees.

[4] Does not include budget proposal relating to increase in D.C. Civil Service Retirement contribution (estimated at less than $50 million per year), but does include certain minor receipt items not shown separately.

Note: Details may not add to totals due to rounding.

Source: Estimates provided by the Office of the Secretary of the Treasury.

TABLE 6.—BUDGET OUTLAYS, RECEIPTS, AND DEFICITS

[Dollar amounts in billions]

Historical Data

Fiscal year	Receipts		Outlays [1]		Deficit	
	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1971	187.1	18.1	210.2	20.4	−23.0	2.2
1972	207.3	18.4	230.7	20.5	−23.4	2.1
1973	230.8	18.4	245.7	19.6	−14.9	1.2
1974	263.2	19.1	269.3	19.5	−6.1	0.4
1975	279.1	18.9	332.3	22.4	−53.2	3.6
1976	298.1	18.1	371.8	22.6	−73.7	4.5
1977	355.6	19.1	409.2	22.0	−53.6	2.9
1978	399.6	19.1	458.8	21.9	−59.2	2.8
1979	463.3	19.6	503.5	21.3	−40.2	1.7
1980	517.1	20.1	590.9	23.0	−73.8	2.9
1981	599.3	20.8	678.2	23.5	−78.9	2.7
1982	617.8	20.3	745.7	24.5	−127.9	4.2
1983	600.6	18.6	808.4	25.1	−207.8	6.4
1984	666.5	18.6	851.8	23.8	−185.3	5.2
Congressional Budget Office Baseline						
1985	735	19.1	950	24.6	−215	5.6
1986	788	19.0	1,008	24.2	−220	5.3
1987	855	19.1	1,095	24.4	−240	5.4
1988	934	19.3	1,191	24.7	−257	5.3
1989	1,005	19.3	1,284	24.7	−280	5.4
1990	1,088	19.4	1,390	24.8	−302	5.4
Administration's Budget as Estimated by CBO						
1985	735	19.1	950	24.7	−215	5.6
1986	789	19.0	975	23.5	−186	4.5
1987	855	19.1	1,039	23.2	−185	4.1
1988	934	19.3	1,120	23.2	−186	3.9
1989	1,007	19.3	1,193	22.9	−187	3.6
1990	1,090	19.4	1,276	22.8	−187	3.3

[1] Includes outlays (and deficits) that are off-budget under current law and proposed to be included on-budget. These transactions began in 1973.

TABLE 7.—ADMINISTRATION'S DEFICIT REDUCTION PROGRAM AS ESTIMATED BY CBO

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990	Cumulative 5-year total
CBO baseline deficit [1]	220	240	257	280	302	1,299
Policy changes:						
Revenues [2]	−1	1	([3])	−2	−2	−4
Outlays:						
National defense	2	6	11	12	10	43
Entitlements and other mandatory spending	−14	−23	−31	−36	−40	−144
Nondefense discretionary spending [1]	−17	−32	−39	−46	−53	−187
Offsetting receipts	−4	−5	−6	−8	−9	−32
Net interest	([3])	−3	−7	−13	−21	−43
Subtotal, outlays	−33	−56	−71	−91	−113	−364
Total policy changes	−33	−55	−71	−93	−116	−368
President's budget as estimated by CBO [1]	186	185	186	187	187	930

[1] Includes programs that are off-budget under current law.

[2] Revenue increases are shown with minus signs because they reduce the deficit; revenue decreases, which are displayed with no sign, increase the deficit.

[3] Less than $500 million.

TABLE 8.—CBO ESTIMATES OF THE ADMINISTRATION'S SPENDING PROGRAM BY MAJOR CATEGORY

[By fiscal year]

	1985	1986	1987	1988	1989	1990
In billions of dollars						
National defense	253	284	319	358	396	435
Entitlements and other mandatory spending:						
Social Security and Medicare benefits	255	269	290	313	338	365
Other entitlements	182	162	166	167	169	173
Subtotal	437	431	456	481	507	538
Nondefense discretionary [1]	179	167	162	164	164	165
Net interest	130	146	161	180	195	212
Offsetting receipts	−48	−54	−59	−64	−68	−73
Total outlays [1]	950	975	1,039	1,120	1,193	1,276
As a percent of GNP						
National defense	6.6	6.8	7.1	7.4	7.6	7.8
Entitlements and other mandatory spending:						
Social Security and Medicare benefits	6.6	6.5	6.5	6.5	6.5	6.5
Other entitlements	4.7	3.9	3.7	3.5	3.2	3.1
Subtotal	11.3	10.4	10.2	10.0	9.7	9.6
Nondefense discretionary [1]	4.6	4.0	3.6	3.4	3.2	2.9
Net interest	3.4	3.5	3.6	3.7	3.7	3.8
Offsetting receipts	−1.2	−1.3	−1.3	−1.3	−1.3	−1.3
Total outlays [1]	24.7	23.5	23.2	23.2	22.9	22.8

[1] Includes programs that are off-budget under current law.

TABLE 9.—COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS, 1985–90

[By calendar year]

	Actual 1984	1985	1986	1987	1988	1989	1990
Nominal GNP (in billions of dollars)	3,661						
Administration		3,948	4,285	4,642	5,017	5,399	5,780
CBO		3,927	4,238	4,567	4,921	5,301	5,711
Real GNP (percent change, year over year)	6.8						
Administration		3.9	4.0	4.0	4.0	3.9	3.6
CBO		3.5	3.2	3.3	3.4	3.4	3.4
Consumer Price Index (percent change, year over year) [1]	3.4						
Administration		4.1	4.3	4.2	3.9	3.6	3.3
CBO		3.8	4.5	4.2	4.2	4.2	4.2
91-Day Treasury bill rate (percent)	9.5						
Administration		8.1	7.9	7.2	5.9	5.1	5.0
CBO		8.3	8.7	8.2	8.2	8.2	8.2
Civilian unemployment rate (percent)	7.5						
Administration [2]		7.0	6.9	6.6	6.3	6.1	5.8
CBO		7.1	6.9	6.7	6.6	6.4	6.2

[1] Urban wage and clerical workers.

[2] The administration's projection is for the total labor force including Armed Forces residing in the United States, while CBO's is for the civilian labor force excluding Armed Forces. In recent years, the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian labor force.

Source: Congressional Budget Office.

TABLE 10.—OUTLAYS FOR MAJOR SPENDING CATEGORIES FOR SELECTED YEARS

[By fiscal year, as a percent of GNP]

	1965	1970	1975	1980	1985 [1]	1990 [1]	1990 [2]
National defense	7.7	8.4	5.8	5.2	6.6	7.6	9.8
Entitlements and other mandatories	5.3	7.0	10.6	10.9	11.3	10.3	9.6
Nondefense discretionary spending	4.8	4.5	5.6	6.1	4.6	3.9	2.9
Net interest	1.3	1.5	1.6	2.0	3.4	4.1	3.8
Offsetting receipts	−1.2	−1.2	−1.2	−1.2	−1.2	−1.2	−1.3
Total	17.9	20.2	22.4	23.0	24.7	24.7	22.8

[1] CBO baseline projections.
[2] Administration policies as estimated by CBO.

TABLE 11.—NET EFFECT ON RECEIPTS OF MAJOR TAX LEGISLATION ENACTED IN 1981–1984, FISCAL YEARS 1984–88 [1]

[Fiscal years; billions of dollars]

	1984	1985	1986	1987	1988	1984–88
Economic Recovery Tax Act of 1981	−137	−169	−211	−251	−283	−1,050
Tax Equity and Fiscal Responsibility Act of 1982	36	41	51	62	64	254
Highway Revenue Act of 1982	4	4	5	5	5	23
Social Security Amendments of 1983	6	9	9	11	23	58
Interest and Dividends Tax Compliance Act of 1983	−3	−2	−2	−2	−2	−11
Railroad Retirement Act of 1983	0.2	1	1	1	1	4
Deficit Reduction Act of 1984	1	9	16	22	25	72
Total	−92	−106	−131	−152	−167	−650

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

TABLE 12.—SPENDING EFFECTS OF LEGISLATIVE CHANGES FROM 1981 TO 1984 [1]

[By fiscal year in billions of dollars; (— indicates outlay reduction, + outlay increase)]

	1982	1983	1984	1985	1986	1987	1988
Trade adjustment assistance	−1.3	−0.9	−0.6	−0.4	−0.3	−0.3	−0.3
Social Security	−1.6	−4.5	−8.0	−9.1	−9.1	−9.6	−9.9
Unemployment compensation	−1.0	+2.3	+2.3	+.4	−.6	−.5	−.4
Aid to families with dependent children	−.9	−.9	−1.0	−1.0	−1.1	−1.2	−1.2
Child support enforcement	(*)	−.1	−.1	−.1	(*)	(*)	(*)
SSI	(*)	+.1	+.7	+.8	+.8	+.8	+.9
Social services block grant [2]	−.7	−.5	−.6	−.7	−.7	−.7	−.7
Earned income tax credit	0	0	0	(*)	+.3	+.2	+.2
Medicare: [3]							
Hospital insurance	−.4	−2.3	−2.6	−3.2	−5.7	−7.3	−9.1
SMI	−.2	−.6	−1.0	−2.3	−2.9	−3.2	−3.4
Total	−6.1	−7.4	−10.9	−15.6	−19.3	−21.8	−23.9
Taxation of Social Security [4]			−.9	−3.2	−3.8	−4.5	−5.4
Taxation of unemployment compensation [5]		−.7	−.7	−.6	−.5	−.5	([6])
Premiums [7]		+.1	+.3	−.4	−.2	−.1	−.1
Total including taxing of benefits and premiums	−6.1	−8.0	−12.2	−19.8	−23.8	−26.9	([6])

*Less than $50 million.

[1] These estimates are very uncertain. They require estimating what spending would have been under the policies in effect in 1981, comparing these estimates to actual spending for 1982 to 1984, and projecting the differences for 1985 through 1988. It is, however, increasingly difficult to estimate what spending would have been under the policies in effect in 1981. Since 1981, changes have occurred in the economy, in the demographic composition of the population, in the policies of State governments, and in Federal administrative practices. Each of these factors has potentially affected spending in these programs. It is very difficult to identify separately the independent effects of Federal legislation.

[2] Change in funding ceiling.

[3] Does not include impact of premium changes.

[4] CBO estimate of January 1984.

[5] Department of Treasury estimate—January 1984.

[6] Not available.

[7] (—) indicates a premium increase: They include the impact of reduced SMI outlays on premiums.

Note: These are January 1985 CBO estimates unless otherwise indicated.

TABLE 13.—CBO BUDGET PROJECTIONS UNDER 1985 AND 1981 POLICIES

[By fiscal year, as a percent of GNP]

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Under 1985 policies									
National defense	6.1	6.5	6.4	6.5	6.8	7.0	7.2	7.4	7.6
Nondefense programs	15.0	15.4	14.1	14.4	13.6	13.5	13.3	13.1	12.9
Net interest	2.8	2.8	3.1	3.4	3.5	3.6	3.9	3.9	4.1
Unified budget outlays	23.9	24.7	23.5	24.3	23.9	24.1	24.3	24.4	24.6
Revenues	20.3	18.6	18.6	19.1	19.0	19.1	19.3	19.3	19.4
Deficit (—) or surplus	—3.6	—6.1	—4.9	—5.3	—5.0	—5.0	—5.0	—5.1	—5.2
Under 1981 policies									
National defense	6.0	6.0	5.7	5.6	5.8	5.8	5.8	5.9	5.9
Nondefense programs	16.3	16.9	15.4	15.4	15.1	15.0	14.8	14.6	14.4
Net interest	2.8	2.7	2.9	2.9	2.7	2.5	2.4	2.2	1.9
Unified budget outlays	25.1	25.6	24.0	23.9	23.6	23.3	23.0	22.7	22.3
Revenues	21.6	21.0	21.4	22.0	22.1	22.4	22.7	22.9	23.5
Deficit (—) or surplus	—3.5	—4.7	—2.6	—1.9	—1.5	—0.9	—0.4	0.2	1.2

TABLE 14.—CBO BASELINE REVENUE PROJECTIONS BY SOURCE

[By fiscal year, in billions of dollars]

	1984 actual	Projections					
		1985	1986	1987	1988	1989	1990
Individual income taxes	298	333	361	393	432	471	515
Corporate income taxes	57	63	71	88	96	102	107
Social insurance taxes:							
Old age, survivors, and disability insurance (OASDI)	166	187	199	214	241	262	288
Hospital insurance (HI)	40	45	51	56	60	64	69
Unemployment insurance	25	26	25	23	23	23	23
Other	8	8	8	9	9	9	9
Excise taxes:							
Windfall profit taxes	9	7	5	4	4	4	3
Other	28	31	29	31	30	30	31
Estate and gift taxes	6	6	5	5	5	5	5
Customs duties	11	12	13	14	15	15	16
Miscellaneous receipts	17	18	18	19	19	20	21
Total baseline revenues	666	735	788	855	934	1,005	1,088

TABLE 15.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAY AND MEANS FOR FISCAL YEARS 1984–90

[In billions of dollars]

	1984	1985	1986	1987	1988	1989	1990
Social Security	180.9	191.4	202.3	215.3	229.0	243.3	259.2
OASI	162.4	172.1	182.3	194.4	207.2	220.7	235.6
DI	18.5	19.3	20.0	20.9	21.8	22.7	23.6
Medicare	62.7	70.4	77.2	86.2	96.5	108.0	120.8
Health insurance	42.3	47.9	51.5	56.9	63.0	69.8	77.4
Supplementary medical insurance	20.4	22.4	25.8	29.3	33.5	38.2	43.5
Trade adjustment assistance	(1)	(1)	.1	.1	.1	.1	.1
Unemployment assistance	18.3	17.3	17.2	17.5	17.7	18.0	18.2
AFDC	8.4	8.5	8.6	8.8	9.2	9.4	9.7
Child support	.5	.6	.7	.7	.8	.8	.8
Earned income tax credit	1.2	1.1	1.3	1.3	1.2	1.1	1.1
SSI	8.5	9.7	9.9	10.3	11.7	11.4	11.0
Social services (title XX)	2.8	2.9	2.7	2.7	2.7	2.7	2.7
Child welfare, foster care, adoption assistance	.7	.7	.8	.9	.9	1.0	1.1
SMI premiums	−5.0	−5.5	−6.3	−7.1	−7.7	−8.2	−8.8
Total	278.9	296.9	314.5	336.6	362.0	387.6	415.9

[1] Less than $50 million.

Note.—SSI estimates include 13 months of benefits in fiscal year 1988. Fiscal years 1984 and 1990 include 11 months of benefits.

Source: Congressional Budget Office.

PART II

Description of Administration Proposals To Reduce Spending for Programs Under the Jurisdiction of the Committee on Ways and Means

MEDICARE

Freeze prospective payment rates for one year.

Current law and background:

Medicare pays for inpatient hospital services under the prospective payment system (PPS) on the basis of diagnosis related groups (DRG's). New payment rates for the Federal portion for each DRG are effective each October 1. In fiscal year 1984, payments were increased by the market basket (MB) increase (i.e., the percentage increase in the costs of goods and services purchased by hosptials) plus 1 percentage point. In fiscal year 1985, the rate of increase was MB plus one-quarter percentage point. For both fiscal years 1984 and 1985, "budget neutrality" (which specifies that hospital payments under the new system cannot be greater than that which would have been paid under the provisions of TEFRA) applied.

In fiscal year 1986, the Secretary, taking into account the recommendation of the Prospective Payment Assessment Commission, has authority to establish the rate of change in the prospective payment rates. However, the rate of increase cannot exceed MB plus one-quarter percentage point.

Description of proposal:

The administration budget proposes, by regulation, to freeze the 1986 prospective payment rates at their 1985 levels.

Impact:

Relative to the CBO baseline, the proposal would reduce Medicare outlays by $1.5 billion, $2.2 billion, and $2.7 billion for fiscal years 1986 to 1988 respectively. Compared to the CBO baseline where prospective payment rates are increased at a rate equal to market basket plus 0.25 percent, all hospitals lose. The transition from the old payment system to the new payment system would continue. It causes some hospitals to be winners and some to be losers. The freeze in payment rates will result in the losers losing more and the winners gaining less.

The payment rate freeze does not mean that payments to individual hospitals will be the same as the previous year. The following table shows the impact of a payment rate freeze with the transition continuing. On average, *relative to the previous year's reimbursement,* hospitals in the South, small hospitals and some teaching hospitals would gain while hospitals in the Pacific and North Central regions and those in larger urban areas would lose.

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HOSPITAL YEAR 1985 TO 1986 PERCENT CHANGE IN PER CASE REIMBURSEMENT RESULTING FROM THE TRANSITION TO NATIONAL RATES IF FISCAL YEAR 1986 PROSPECTIVE PAYMENT RATES ARE FROZEN AT 1985 LEVELS

Percent gain (+) or loss (−)	Percent of hospitals
Loss of more than −5	14
−3 to −5	9
0 to −3	22
0 to +3	20
+3 to +5	10
Gain of more than +5	24

Effective date:

October 1, 1985.

Reduce by 50 percent the adjustment for indirect teaching adjustment.

Current law and background:

Payments are made to hospitals under PPS for the indirect costs of approved medical education programs. Such costs may be due to a number of factors such as the ordering of additional tests by interns and residents. The additional payments are computed by doubling an education adjustment factor which is applied to the Federal portion of the hospital's DRG payments.

Prior to implementation of PPS, an estimate was developed of how a hospital's costs increased as the ratio of interns and residents to beds increased. This education adjustment factor served as the basis of Medicare payments for indirect medical education costs under cost limits applied under Medicare's reimbursement method in effect prior to PPS. With the enactment of PPS, Congress doubled the adjustment factor. This doubled factor is equal to 11.59 percent for each 0.1 increase (above zero) in the ratio of a hospital's full-time equivalent interns and residents to its number of beds.

Description of proposal:

The administration proposes, by legislation, to reduce the indirect teaching adjustment by 50 percent.

Impact:

CBO estimates savings of $590 million, $810 million, and $1,100 million for fiscal years 1986 to 1988 respectively. The higher intern and resident to bed ratio, the greater is the loss in payments. This is shown in the following table. Moreover, the proposal would likely have an adverse impact on hospitals that serve a disproportionate share of low-income patients—large, urban, public hospitals, for example.

Intern and resident to bed ratio	Percentage reduction [1]	Number of hospitals
>0 to .25	3	641
.26 to .50	10	84
.51 to .75	14	16
>.75	19	14

[1] Average percentage reduction in medicare payments under the prospective payment system. This table does not include hospitals in the four waiver States nor exempt hospitals.

Effective date:

October 1, 1985.

Freeze payment for direct costs of medical education.

Current law and background:

Direct costs of approved medical education programs (such as the costs of graduate medical education programs for interns and residents salaries and classroom costs; and nursing program and allied health professions training programs) are excluded from the prospective payment system and are paid on the basis of reasonable costs. In fiscal year 1984, Medicare reimbursement for these costs was an estimated $1 billion.

Description of proposal:

The administration proposes, by regulation, to freeze direct medical education costs. The maximum amount paid to each hospital would be *permanently frozen* at the level received by the hospital in its cost reporting period ending in fiscal year 1984.

Impact:

CBO estimates reduced medicare outlays of $130 million, $280 million and $460 million for fiscal years 1986 to 1988 respectively.

Effective date:

Hospital cost reporting periods beginning on or after July 1, 1985.

Freeze payment limits for hospitals exempt from the prospective payment system.

Current law and background:

Certain hospitals and hospital units are exempt from the prospective payment system. These include psychiatric and rehabilitation hospitals and distinct units of such hospitals, as well as children's hospitals and long-term care hospitals. These hospitals and units are paid on the basis of historical costs in a base year subject to existing rate of increase limits, e.g. market basket (MB) plus one-quarter percentage point. For hospital cost reporting periods beginning in fiscal year 1986, the rate of increase is left to the discretion of the Secretary. However, the rate of increase for hospital

accounting years beginning in fiscal year 1986 cannot exceed MB plus one-quarter percentage point.

Description of proposal:

The administration proposes to freeze for 1 year the limits for PPS-exempt hospitals for cost reporting periods beginning October 1, 1985, at the level in effect the previous year.

Impact:

CBO estimates reduced medicare outlays of $40 million, $55 million and $60 million for fiscal years 1986 to 1988 respectively.

Effective date:

Hospital accounting years beginning October 1, 1985.

Restructure home health limits.

Current law and background:

Reimbursement for home health services is currently limited to the 75th percentile of the average cost per visit incurred by all home health agencies. Separate limits are established for each type of service (skilled nursing, home health aide, physical therapy, etc.). However, they are applied in the aggregate to each home health agency based on its mix of services.

Description of proposal:

The administration proposes to revise the calculation of home health limits. The current limits are applied in the aggregate, and home health agencies may exceed the limits for one service as long as it is below the limit for another service. This proposal would result in separate limits being applied for each type of service.

Impact:

CBO has been unable to estimate the saving from the proposal because the administration has not provided information on the proposal.

Effective date:

July 1, 1985.

Freeze limits on reimbursement for skilled nursing facilities.

Current law and background:

Reimbursement to skilled nursing facilities (SNF's) is cost based subject to specified cost limits. Separate reimbursement limits are established for freestanding facilities in urban and rural areas at 112 percent of the mean operating costs of urban and rural freestanding facilities respectively. Limits for urban hospital-based facilities are equal to the urban freestanding facility limit plus 50 percent of the difference between the freestanding limit and 112 percent of mean operating costs for urban hospital-based facilities. A similar calculation is made for rural hospital-based facilities. The limits are adjusted annually by the skilled nursing facility market basket index.

Description of proposal:

The administration proposes to freeze for 1 year the SNF limits for SNF accounting periods beginning on or after July 1, 1985, at the level in effect for the prior year.

Impact:

Both CBO and the administration estimate that this proposal would reduce outlays by $3 million, $5 million, and $5 million for fiscal years 1986 to 1988, respectively.

Effective date:

Cost reporting period begining on or after July 1, 1985.

Freeze customary and prevailing charges for durable medical equipment.

Current law and background:

Reimbursement for durable medical equipment (DME) and other nonphysician services, ambulance services, and prosthetic devices are reimbursed on a reasonable charge basis.

With the exception of payment for wheelchairs and prosthetic devices (which are reimbursed under the lowest charge level provisions), medicare pays for the lower of the actual charge, the customary charge, or the prevailing charge. Unlike physician payments, however, the prevailing charge is not held down by the medicare economic index.

Description of proposal:

The administration proposes to freeze customary and prevailing charges for durable medical equipment and related items for 1 year beginning in fiscal year 1986. Beginning in fiscal year 1987, prevailing charges would be indexed to the consumer price index (CPI).

Impact:

CBO indicates that this proposal would reduce outlays by $55 million, $100 million, and $140 million in the fiscal years 1986 to 1988, respectively.

Effective date:

October 1, 1985.

Freeze the clinical lab fee schedule.

Current law and background:

The Deficit Reduction Act of 1984 established two fee schedules for the payment of clinical laboratory services, effective July 1, 1984. One fee schedule is established for laboratory tests performed by either a physician or by a laboratory (including a hospital laboratory furnishing services to persons who are not patients of the hospital). A second schedule is established for hospital-based laboratory services provided to a hospital's outpatients. For the 3-year period beginning July 1, 1984, the rates under both schedules are to be established on a regional, statewide, or carrier service area

basis. Beginning July 1, 1987, the fee schedule for tests performed by a physician or laboratory is to be established on a national basis. At the same time payment for hospital-based laboratory services is slated to revert to cost-based reimbursement.

The fee schedules are to be adjusted annually to reflect changes in the CPI for all urban consumers.

Description of proposal:

The administration proposes, by legislation, to freeze the fee schedule amounts for 1 year beginning July 1, 1985. The proposal would extend the fee schedule permanently for hospital-based laboratory services beyond the July 1, 1987 termination date.

Impact:

CBO estimates reduced outlays of $50 million, $80 million and $235 million for fiscal years 1986 to 1988 respectively.

Effective date:

July 1, 1985.

Extend the current physician fee freeze for an additional 12 months.

Current law and background:

Payment for physicians' services equals 80 percent of Medicare's "reasonable" or "approved" charges. The reasonable or approved charge for a service cannot exceed the actual charge, the customary charge for the service, or the prevailing charge for the service in the community. If the physician accepts assignment on a claim he agrees to accept Medicare's reasonable charge determination as payment in full; Medicare then pays the physician directly. If the physician does not accept assignment, Medicare payments are made to the beneficiary who in turn pays the physician. Beneficiaries are liable for the required deductible and coinsurance charges, plus, in the case of nonassigned claims, any difference between Medicare's reasonable charge and the physician's actual charge.

DEFRA froze physicians' fees for the 15-month period July 1, 1984–September 30, 1985. The legislation also established the concept of a "participating physician." A "participating physician" is one who voluntarily agrees to accept assignment on all claims for the forthcoming year. The law includes incentives for physicians to become "participating." Among these incentives is the ability to raise charges during the freeze in order to have such charges reflected in the calculation of customary charges in fiscal year 1986.

Description of proposal:

The administration proposes to extend the freeze for an additional year (October 1, 1985–September 30, 1986). The proposal would allow participating physicians to increase their actual charges during the freeze period. Nonparticipating physicians would be prohibited from increasing their charges over the charges they made during the base period (April, May, June of 1984).

Impact:

CBO projects reduced medicare outlays of $475 million, $450 million, and $450 million for fiscal years 1986 to 1988 respectively.

Effective date:

October 1, 1985.

Delay initial eligibility for medicare by one month.

Current law and background:

Eligibility for Medicare begins on the first day of the month in which an individual reaches age 65.

Description of proposal:

The administration budget proposes to delay eligibility for both Parts A and B of Medicare to the first day of the month following the individual's 65th birthday.

Impact:

The CBO estimates reduced Medicare outlays of $245 million, $270 million, and $295 million for fiscal years 1986 to 1988 respectively. Approximately 2.2 million individuals will be affected by the provision. It is unclear at whose expense these savings occur. It could be the beneficiaries or their employers or their private health insurance carriers.

Effective date:

January 1, 1986. The estimates above assume an effective date of October 1, 1985.

Index the Part B deductible to medicare economic index.

Current law and background:

By law, enrollees in the supplementary medical insurance (or part B) portion of medicare must pay the first $75 of covered expenses (known as the deductible) each year before any benefits can be paid. The amount of this deductible is fixed by law.

Description of proposal:

The administration proposes, by legislation, beginning in calendar year 1987, to increase the part B deductible by the same percentage as the increase in the medicare economic index. In addition the amount would be rounded up to the next whole dollar.

Impact:

The CBO estimates that this proposal would increase the current deductible of $75 per month to $78 beginning January 1, 1987. The deductible would increase to $82, $85, and $89 for calendar years 1988 to 1990 respectively.

The proposal would reduce part B expenditures by $75 million in 1987, increasing to $330 million in 1990 according to CBO. Both CBO and administration outlay impacts assume the deductible is rounded to the nearest $5.00.

Effective date:

January 1, 1987.

Require copayment for home health after 20 visits.

Current law and background:

Home health services are not subject to coinsurance charges.

Description of proposal:

The administration proposes to establish a copayment equal to 1 percent of the inpatient hospital deductible on all home health visits after the 20th visit in a calendar year. The administration estimates that the copayment amount would be $4.80 in 1986.

Impact:

CBO estimates reduced expenditures of $65 million, $120 million and $130 million for fiscal years 1986 to 1988 respectively. Approximately 50 percent of home health visits are after the 20th visit.

Effective date:

January 1, 1987.

Increase the part B premium to 35 percent of program costs by 1990.

Current law and background:

Under present law, the Secretary of Health and Human Services is required to calculate each year the increase in premiums of those who elect to enroll in the supplementary medical insurance (or part B) portion of the medicare program. The new premium rates are effective on January 1 of the year following the year in which the calculation was made. Ordinarily, the new premium rate is the lower of: (1) an amount sufficient to cover one-half of the costs of the program for the aged or (2) the current premium amount increased by the percentage by which cash benefits are increased under the cost-of-living (COLA) provisions of the social security programs. Premium income, which originally financed half of the costs of part B, has declined—as the result of this formula—to less than 25 percent of total program income. Section 124 of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), however, temporarily suspended the limitation for 2 years (1984 and 1985). During this period, enrollee premiums would be allowed to increase to the amount necessary to produce premium income equal to 25 percent of program costs for elderly enrollees. Public Law 98-369 (DEFRA) extended this provision for calendar years 1986 and 1987.

Description of proposal:

The administration proposes, by legislation, to increase the part B premium to cover 35 percent of program costs by 1990.

Impact:

The CBO estimates increased premiums by medicare part B enrollees of $296, $1,168, $2,316 and $3,734 million for fiscal years 1985 through 1988 respectively. The premium for calendar year 1985 is $15.50 per month. The increase in the January 1, 1986, premium is estimated to be $2.00 if the other SMI proposals are not enacted and $1.60 assuming the other proposals are enacted. The administration and CBO estimates of the premium increase are shown in the table below:

PREMIUM AMOUNTS UNDER CURRENT AND PROPOSED LAW

	1985	1986	1987	1988	1989	1990
Administration estimates:						
Current law	15.50	16.10	18.70	19.50	20.30	21.10
Proposed premiums:						
With other medicare proposals		16.80	21.00	24.90	29.10	34.00
Without other medicare proposals		17.40	21.70	25.70	30.40	35.70
CBO estimates:						
Current law	15.50	16.20	18.60	19.40	20.20	21.10
Proposed premiums:						
With other medicare proposals		17.10	21.00	24.90	29.60	34.80
Without other medicare proposals		17.50	21.60	25.70	30.60	36.10

Effective date:

January 1, 1986.

Extend the medicare working aged provision to employees over age 69.

Current law and background:

TEFRA required employers to offer their employees aged 65 through 69 the same group health plan offered to their employees under age 65. DEFRA extended the provision to beneficiaries covered under a working spouse's employer health plan when that spouse is under age 65. Where the beneficiary elects such coverage, Medicare becomes the secondary payer. The beneficiary retains the option to be covered only by Medicare.

Description of proposal:

The administration budget proposes, by legislation, to extend this provision to beneficiaries over age 69 if they or their spouse work and elect the employer-based health insurance.

Impact:

CBO estimates reduced expenditures of $230 million, $360 million, and $400 million in fiscal years 1986 to 1988, respectively. These estimates are based on a determination of the number of workers and spouses that are likely to be offered low-cost, employ-

ment-related insurance. The table below outlines the number of workers impacted by the proposal for fiscal year 1986.

Workers:	
Persons over 70	18,400,000
Workers over 70	1,799,000
Full-time workers over 70	246,000
Part-time workers over 70	393,000
Workers choosing a plan	227,000
Spouses:	
Spouses over 65 (of full-time workers over 70)	87,000
Spouses over 70 (excluded under current law)	20,000
Spouses choosing a plan	38,000

It is assumed that 70 percent of full-time, full-year workers will be offered and accept a plan at their place of employment. Only 14 percent of part-time workers will be offered and accept private insurance. Of the spouses of full-time workers, only 35 percent will come under private coverage. Workers are less likely to choose coverage for the spouse because the employee is likely to pay more of the premium than is the case for the self-coverage.

The savings for Medicare are based on an average savings of $1,239 per year for each worker compared with the estimated fiscal year 1986 Medicare average of $2,025 per enrollee. This reflects better health status for the enrollees and average health status for their spouses. If the average cost per enrollee appears low, it is offset by the fact that there is no allowance for some payments from Medicare as a secondary payor or for loss of part B premiums for those who drop out entirely.

Effective date:

Effective January 1, 1986.

Optional medicare vouchers.

Current law and background:

Under present law, medicare payments are made on behalf of beneficiaries to hospitals and other institutions who participate in medicare and through payment arrangements to or on behalf of beneficiaries in the case of physician and other medical services.

Description of proposal:

The administration proposes to establish a voluntary medicare voucher program under which beneficiaries could elect to receive services through a private health benefits plan (including certain health maintenance organizations) rather than through participation in medicare. Private plans would have to offer benefits at least equivalent to medicare.

The Government would contribute an amount equal to 95 percent of the average per-person cost of medicare coverage toward the purchase of private protection.

Impact:

CBO has been unable to estimate the provision because the administration has provided inadequate information on the proposal. In past years, the administration has estimated increased medicare outlays of $50 million per year from fiscal year 1987 to 1990.

Effective date:

January 1, 1987.

Miscellaneous Proposals

Railroad Retirement Board claims.

Current law and background:

The Railroad Retirement Board is required to contract with a carrier or carriers to handle medicare part B payments with respect to railroad retirement beneficiaries. The Board has contracted with Travelers Insurance Co., to serve as a carrier nationwide; in contrast, other medicare carriers serve smaller geographic areas.

Description of proposal:

The administration proposes to repeal the provision under which the Railroad Retirement Board chooses the part B carrier for railroad beneficiaries.

Impact:

Both CBO and the administration estimate Medicare savings of $2 million per year from 1986 to 1990.

Effective date:

October 1, 1985.

Intermediary payments.

Current law and background:

Under medicare, intermediary payments for services rendered to a beneficiary in more than one hospital during a benefit period are made in the order the services are rendered.

Description of proposal:

The administration proposes to require that intermediary payments be made in the order bills are received from the hospitals.

Impact:

CBO estimates Medicare savings of $3 million, $4 million, and $4 million for fiscal years 1986 to 1988, respectively.

Effective date:

October 1, 1985.

Program management proposals.

The administration proposes several medicare and medicaid related budget initiatives whose savings are included in the program management portion of the budget.

a. *Research, Demonstrations and Evaluation.*—The administration proposes the fiscal year 1985 funding level of $22 million, a cut of $11 million over the 1985 budget.

b. *Medicare Contractors.*—The administration proposes an increase of $2 million above the fiscal year 1986 funding level for the administration of the medicare program through private contractors. The contractors anticipate a 10 percent workload increase in fiscal year 1986 over fiscal year 1985.

c. *State Certification.*—The administration proposes the same level of outlays from the fiscal year 1985 level for State certification activities.

d. *ESRD Network Coordinating Councils.*—The administration requests no funding for the activities of end stage renal disease (ESRD) network coordinating councils. The administration estimates that this will result in an estimated outlay reduction of $5 million from fiscal years 1986 to 1988.

e. *Administrative Cost.*—The administration requests a $13 million reduction over the fiscal year 1985 level for administrative costs for medicare and medicaid.

AID TO FAMILIES WITH DEPENDENT CHILDREN

The administration's fiscal year 1986 budget request proposes four statutory changes in the AFDC program which the administration estimates would produce $180 million in Federal AFDC savings in fiscal year 1986. The proposed AFDC changes, if enacted, would also impact the food stamp and Medicaid programs. In fiscal year 1986, the net impact of the proposed AFDC policies on food stamps and Medicaid would be a reduction of $222 million.

Between fiscal years 1986 and 1988 the proposed statutory changes would produce AFDC savings of $490 million. The offsetting food stamp and Medicaid savings total $1,137 million during this same period, bringing the total reductions over 3 years to $1,627 million.

As a result of these changes, HHS estimates that 10,000 families would lose AFDC eligibility, and benefits to over 83,000 other families would be reduced. Roughly 16,000 families would receive larger AFDC benefits and approximately 89,000 families would obtain a job or be deterred from AFDC. Table 1, supplied by the administration, provides the number of families that will lose, gain, or become ineligible as a result of their major proposals. Many of these proposals have been suggested in previous administration budgets but have not been enacted into law.

The President's budget also assumes savings that will result from three regulatory initiatives of the Department of Health and Human Services. These are: (1) the least costly approach regulations, which were issued as proposed rules on November 16, 1984; (2) a proposal for refunding the Federal share of uncashed and cancelled checks which appeared as a proposed rule on February 22, 1983; and (3) a proposal for refunding the Federal share of duplicate checks for which proposed regulations have not been issued yet. The administration estimates that these three regulatory proposals will produce savings of $24 million in fiscal year 1985, $49 million in fiscal year 1986, $39 million in fiscal year 1987, and $39 million in fiscal year 1988.

The four major statutory changes proposed by the administration which have a budgetary impact are described in greater detail in the following pages.

TABLE 1.—ADMINISTRATION ESTIMATES OF NUMBER OF FAMILIES IMPACTED BY MAJOR AFDC LEGISLATIVE PROPOSALS DURING FIRST YEAR THE PROPOSALS ARE ENACTED

Legislative proposal	Increase	Decrease	Ineligible	Other[1]
Mandatory job search and work participation	NA	NA	NA	89,000
Remove employable caretaker relative when youngest child is 16	16,000	83,000	1,000	NA
Limit assistance for minor mothers	0	0	9,000	NA
Total	16,000	83,000	10,000	89,000

[1] Obtained a job or was deterred from receiving AFDC.

NA: Not applicable.

Source: HHS.

Require States to mandate job search by AFDC applicants and recipients and to require recipient participation in one of several work programs, including workfare.

Current law and background:

As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a work incentive (WIN) program site, the need to care for an ill or incapacitated household member, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

Work registration is one component of the work incentive (WIN) program. All States operate a WIN program which was established in 1967 to provide skills assessment, job training and employment placements to help AFDC recipients to become self-supporting. In addition, recent legislative changes have permitted, but not required, States to offer several other employment programs. These are WIN demonstrations, community work experience programs, job search, work supplementation, and grant diversion.

WIN demonstrations permit States to design an alternative to WIN administered solely by State welfare agencies. The regular WIN program is jointly administered by the Departments of Health and Human Services and Labor. In 1985, 22 States are operating WIN demonstrations.

Community work experience programs (CWEP) were authorized by the Omnibus Budget Reconciliation Act of 1981 and are commonly referred to as workfare. Under CWEP, AFDC recipients may be required to perform community work in exchange for their AFDC benefits. All those required to register for WIN may be required to participate in CWEP. However, unlike WIN, CWEP may require parents with childern age 3 to 6 years old to participate if day care is available. Persons who are exempt from WIN because they live too far from a WIN project may also be required to participate in CWEP. States receive 50 percent Federal matching for the cost of administering CWEP. However, these costs may not include the cost of materials or equipment, or the cost of supervision of work, and may include only such other costs as the HHS Secretary permits. In September 1984, 24 States had opted to implement CWEP; most of these programs do not operate statewide.

The Tax Equity and Fiscal Responsibility Act of 1982 authorized the AFDC job search program, which permits States to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week job search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year of aid up to 16 weeks of job search may be required, with 8 weeks per year thereafter. Ten States implemented some form of job search in 1984.

Finally, States may operate a work supplementation or grant diversion program in which the AFDC benefit is used to underwrite

a portion of the wages for a job. In 1985, 11 States are testing grant diversion or work supplementation.

Each year, since 1981, the administration has proposed the enactment of legislation requiring all States to establish community work experience and job search programs and repealing the authority for the WIN program. In the past, Congress has enacted optional CWEP and job search programs and has chosen not to eliminate the WIN program.

Description of the proposal:

The President's fiscal year 1986 budget again proposes to repeal WIN and the WIN demonstrations, replacing these programs with mandatory job search by all able-bodied AFDC applicants and recipients and a new AFDC work program which incorporates the work options—principally CWEP and grant diversion/work supplementation—available under current law.

Unlike current law, which leaves the job search program to State option, applicants for AFDC would be required to engage in job search while the application is being reviewed. AFDC recipients would also conduct a job search and, if this effort does not produce employment, would be required to participate in one of several work programs offered by the State. This could be CWEP, grant diversion, work supplementation, a program under the Job Training Partnership Act or another work program of State design if approved by the HHS Secretary. Participants in CWEP or a State work program would be required to engage in job search at least monthly; CWEP participation would be limited to 120 hours per month. Two categories of recipients currently exempt from work requirements would no longer be excused: those who are remote from a WIN site and the second parent in a two-parent family if the children are not under age 6.

In fiscal year 1986, States would be required to have 25 percent of their employable AFDC population actively participating in the new work program. In fiscal year 1987, a 50 percent participation requirement would be in effect and in fiscal year 1988 and thereafter, 75 percent of the employable population would be required to actively participate. States would face penalties for failure to meet these performance requirements.

State costs associated with implementation of the new work program would be matched by Federal funds at the rate of 50 percent and would be exempt from the proposed cap on administrative funds discussed below.

Impact:

During fiscal year 1986, CBO estimates that 25,000 cases would be sanctioned; 55,000 cases closed and 25,000 cases reduced. This is similiar to administration estimates of 89,000 cases deterred from AFDC or who obtained a job.

The administration and the Congressional Budget Office differ considerably in their estimates of the impact of this provision. The Congressional Budget Office estimates that this provision will save the Federal Government $10, $25, and $30 million for fiscal years 1986 to 1988 respectively. The administration estimates savings from the provision of $209, $365, and $463 million for fiscal years

1986 to 1988 respectively. CBO's estimated administrative costs are higher and benefit savings for affected families lower.

Effective date:

October 1, 1985.

Limit assistance for minor mothers.

Current law and background:

Under current law, minor parents with AFDC eligible dependent children may live at home with their parents (the grandparents of the dependent child) or may elect to leave home and establish a separate AFDC unit for themselves and the child. A provision enacted as part of the Deficit Reduction Act of 1984 stipulates that if the minor parent and child choose to live with the grandparent of the dependent child, the income of the grandparent(s) is considered in determining AFDC eligibility and benefits. In 1984, the administration proposed to extend AFDC eligibility to minor parents only under certain circumstances. The proposal was not enacted into law.

Description of the proposal:

The administration is again proposing to provide assistance to a never-married minor parent and a dependent child in his or her care (or to a minor if she is pregnant) only if the minor parent and the child reside with the minor's parents or legal guardian. The proposed policy would not apply when: (1) the minor parent has no parent or legal guardian who is living or whose whereabouts are known; (2) the State agency determines that the health and safety of the minor parent or child would be seriously jeopardized if they lived with the minor caretaker's parents or legal guardian; or (3) the minor parent lived apart from his or her parents or legal guardian for at least 1 year prior to the birth of the child or prior to claiming aid, whichever is later.

A State could, at its option, make a protective payment to a third party on behalf of any minor parent and child who are eligible, thus eliminating the payment of AFDC directly to minors.

Impact:

CBO estimates Federal budgetary savings of $20 million each year from fiscal year 1986 to 1990. This assumes 5,000 minor parents would lose eligibility and 10,000 would receive reduced benefits.

Effective date:

October 1, 1985.

End employable parent's benefit when youngest child reaches age 16.

Current law and background:

Under current law, the needs and income of a parent or caretaker relative may be considered when determining benefits for AFDC eligible children. This means, for example, that the needs and

income of the person caring for two AFDC eligible children would be factored into the benefit calculation with the AFDC check based on a three-person family. If such parents or caretakers are employable (i.e., they are not WIN-exempt), they must register for work and training. The children may continue to qualify for AFDC—if all other eligibility criteria are met—until the youngest child is 18 or, at State option, age 19 if the child is in high school or vocational school and expected to complete the course of study before turning 19.

Description of proposal:

The administration again proposes to end AFDC benefits for the parent or caretaker when the youngest child reaches age 16. For those parents with a source of income who are excluded from the AFDC unit, the stepparent disregards would be applied. Because the stepparent policy exempts more income than would be disregarded for recipients of AFDC, some families could receive a higher AFDC benefit as a result of the change.

Impact:

Both the administration and CBO project that 83,000 AFDC households would receive reduced AFDC benefits as a result of the proposal. Approximately 16,000 households would receive larger AFDC benefits. Fiscal year 1986 AFDC savings of $55 million are projected by the administration. The administration estimates total budgetary savings of $107, $115, and $122 million for fiscal years 1986 to 1988, respectively. CBO estimates lower savings of $75, $80, and $80 million for fiscal years 1986 to 1988, respectively.

Effective date:

October 1, 1985.

Limit reimbursement of AFDC administrative costs.

Current law and background:

State and local AFDC administrative and training costs are currently reimbursed with 50 percent Federal funds. There is no ceiling on the amount of reimbursement a State can receive. The Omnibus Budget Reconciliation Act of 1981 reduced the Federal match for AFDC training costs from 75 to 50 percent.

The cost associated with planning, design, development, or installation of a statewide mechanized claims processing or information retrieval system is reimbursed with 90 percent Federal funds.

Description of proposal:

In the fiscal year 1986 budget request, the President is proposing to give States fixed grants for State and local administration and training costs and to maintain expenditures for these activities at the 1985 level of $928 million. Administrative funds for the territories, already capped under the law, would be provided separately at a level of $6 million in 1986.

Under this proposal, each State would receive an amount which is in the same proportion to $928 million as the amount it received for administrative expenses incurred during the most recent full

fiscal year for which substantially complete cost reports have been received by the HHS Secretary. The fiscal year 1986 allocation would be based on information received by January 20, 1985, and approved by the start of fiscal year 1986. For subsequent years, the total amount States receive would be increased by the GNP deflator.

The cost of implementing the proposed new work program would not be included in the limitation on administrative funds. Instead, these expenditures would be reimbursed with a 50 percent Federal match. All other administrative costs would be included within the limitation.

Impact:

CBO estimates savings of $50 million, $47 million and $30 million for fiscal years 1986 to 1988, respectively.

Effective date:

October 1, 1985.

TRADE ADJUSTMENT ASSISTANCE

Worker Program

Rescission of fiscal year 1985 appropriations and no reauthorization of program in fiscal year 1986.

Current law and background:

Under the Trade Act of 1974 as amended, workers certified by the Secretary of Labor as eligible for trade adjustment assistance (TAA) may receive weekly trade readjustment allowances (TRA) equal to their weekly unemployment compensation (UC) after they exhaust UC for up to a combined maximum of 52 weeks of UC and TRA. Workers enrolled in approved training, however, may recieve up to an additional 26 weeks of TRA immediately following exhaustion of their regular TRA if they applied for training within 210 days after the later of the date on which they were certified for benefits or were laid off. Job search and relocation allowances are also available to qualified workers. The program was reauthorized under Public Law 98–120 for 2 years until September 30, 1985.

The administration's estimated funding levels for the current program are based on the following number of receipients and average level and duration of benefits:

CURRENT PROGRAM

Year	Outlays (millions)	Number of recipients (thousands)	Average weekly benefit	Weeks duration
1980	1,622	532	126	24
1981	1,440	281	140	37
1982	103	30	119	28
1983	37	30	120	10

CURRENT PROGRAM—Continued

Year	Outlays (millions)	Number of recipients (thousands)	Average weekly benefit	Weeks duration
1984	35	24	118	12

Note: Outlay figures shown above are for cash entitlement portion of the program; an additional $26 million is funded for training and job search and relocation allowances in fiscal year 1985.

Description of proposal:

The administration proposes rescission of all unused TAA funds as of January 1985, estimated at $25 million, for training and job search and relocation allowances and no reauthorization of the program which terminates by statute on September 30, 1985. The fiscal year 1986 budget request includes $5 million to cover obligations in 1986 for TRA benefits for weeks of unemployment that occurred prior to the expiration of the program.

The administration intends that training, job search and relocation allowances, and related services to eligible workers under the trade adjustment assistance program be provided under the dislocated worker program under title III of the Job Training Partnership Act. (Public Law 97-300). The administration requests $100 million for this program in 1986 to service an estimated 150,000 workers.

Impact:

Since the program is being eliminated, the number of recipients affected by the proposal are those receiving benefits under current law and are shown in the above table for fiscal years 1980 to 1984. CBO estimates of the worker entitlement portion is $70 million for each fiscal year from 1986 to 1990. The 1985 appropriation level is $26 million for training and job search and relocation allowances.

Firm Program

Rescission of fiscal year 1985 appropriations and no reauthorization of program in fiscal year 1986.

Current law and background:

Under the Trade Act of 1974 as amended, firms certified eligible by the Secretary of Commerce for trade adjustment assistance may receive financial assistance (direct loans and/or loan guarantees) and/or technical assistance upon approval of an adjustment plan. Industrywide technical assistance grants are also available. The program was reauthorized under Public Law 98-120 for 2 years until September 30, 1985.

Description of proposal:

The administration requests rescission of the unobligated balance of $18.750 million of the $25.0 million appropriation for fiscal year 1985, and no reauthorization of the program, which terminates by statute on September 30, 1985.

[Dollars in millions]

	Fiscal year 1985 currently available
Direct loans	$6.500
Technical assistance	16.500
Loan guarantee authority	(15.000)
Program operations [1]	2.000
Total	25.000

[1] Supports 28 permanent staff positions.

PENSION BENEFIT GUARANTY CORPORATION (PBGC)

Current law and background:

The Pension Benefit Guaranty Corporation (PBGC) was established by the Employee Retirement Income Security Act of 1974 (ERISA). This wholly-owned Government corporation administers two self-financing programs of mandatory termination insurance to prevent loss of pension benefits under covered private, defined-benefit pension plans if plans terminate or if multiemployer plans are unable to pay benefits. Terminated plans are taken over by the Corporation. PBGC assumes control of their assets, administers them in a trust fund invested by professional money managers, and pays the monthly pensions required by the particular plan, up to a maximum set by law.

Under ERISA, PBGC's single employer insurance program provides insurance protection for about 33 million participants in more than 106,000 private defined benefit pension plans.

The single employer program is financed by per capita annual premiums from ongoing covered plans, assets from terminated plans, investment income, and amounts due PBGC from the sponsors of terminating plans (employer liability). Also, PBGC is authorized to borrow up to $100 million from the U.S. Treasury.

Premiums are collected annually from plans based on the number of plan participants. The annual premium rate was originally set at $1.00 per participant in 1974 and was increased to $2.60, effective January 1, 1978.

Because liabilities assumed under terminated plans exceed income from all sources, PBGC has a growing deficit that is expected to reach $563 million by the end of 1985 under current law. In May 1982 PBGC submitted to the Congress a request for premium rate increase to $6.00 per plan participant for plan years commencing on or after January 1, 1983.

Description of proposal:

The budget reflects the administration's request that the Congress approve an increase in the single employer premium rate to $7.50 to cover projected claims and amortize the current deficit over a reasonable period of time. The administration also supports legislation to revise the insurance program for single employer

plans to prevent unwarranted assignment to PBGC of liabilities for unfunded benefits.

Impact:

Both CBO and the administration estimate that PBGC's premiums will be increased (in budget terms this will be treated as outlay reductions) by $145, $184, $206, $231, $260, and $294 million for fiscal years 1985 through 1990 respectively.

Effective date:

Plan years beginning on or after January 1, 1985.

SOCIAL SERVICES BLOCK GRANTS

Combine community services block grant and WIN with the social services block grant.

Current law and background:

The social services block grant program, authorized by title XX of the Social Security Act, provides allotments to States according to their relative population size. States are free to design their own social services programs within broad Federal guidelines. General goals include economic self-support and the prevention or reduction of dependency. States determine their own eligibility criteria and program mix. The program is an appropriated entitlement with a nationwide ceiling; that is, States are entitled to receive their portion of the total amount appropriated up to a nationwide maximum. Current law provides that the ceiling is $2.725 billion in fiscal year 1985 and $2.7 billion in fiscal year 1986 and subsequent years.

The community services block grant (CSBG), created in 1981, replaced programs formerly administered by the Community Services Administration (CSA), which itself succeeded the antipoverty agency, the Office of Economic Opportunity. States may use community services block grant funds for programs intended to prevent or reduce poverty and to encourage economic self-sufficiency. In the first year of CSBG, fiscal year 1982, States were required to pass through 90 percent of their block grant money to grantees who had formerly received funds from CSA. The same rule applies this year to most States. The Work Incentive Program (WIN) provides funds to States to cover the cost of registering AFDC recipients for employment and training and providing such services to AFDC recipients. The WIN and community services block grant programs are under the jurisdiction of the Committee on Education and Labor.

Description of proposal:

The administration proposes to spend the full amount authorized in fiscal year 1986 for social services block grants. However, two related programs (WIN and CSBG) would be terminated entirely under the administration's fiscal year 1986 budget request with the stated intent that States may choose to fund such programs with their allocation from the title XX social services block grant and other Federal programs.

Impact:

The administration estimates that $652, $681, $712, $740, and $766 million for fiscal years 1986 to 1990 respectively will be saved as a result of combining WIN and CSBG with the social services block grant with no increase in funding above that authorized in the social services block grant.

Effective date:

October 1, 1985.

CHILD WELFARE AND FOSTER CARE

Freeze Foster Care Entitlement Funds.

Current law and background:

Title IV–E of the Social Security Act provides that Federal matching funds for foster care are available to States as an entitlement for the payment to foster families and child care institutions for the care of AFDC foster care children. Since fiscal year 1981, and effective through fiscal year 1985, there has been the potential for a mandatory State-by-State ceiling on the foster care funds available to States if certain conditions were met. Public Law 96–272 enacted in 1980 provided that a mandatory ceiling would be imposed on each State if the appropriation for title IV–B child welfare services was $163.5 million in fiscal year 1981, $220 million in fiscal year 1982, and $266 million in each of the fiscal years 1983, 1984 and 1985. The title IV–B appropriation was sufficient only in fiscal year 1981 to trigger the mandatory foster care ceiling on all States. However, the law provides each State the option to gain flexibility in the use of Federal foster care funds if a State accepts a voluntary ceiling on the Federal matching funds available to the State for foster care. Under such a voluntary ceiling, a portion of the Federal foster care matching funds available to a State under the ceiling which are not used for foster care can be transferred to use by the State for child welfare services under title IV–B.

Generally, a State's foster care ceiling is whichever of the following is most favorable: the State's share of $100 million relative to its population under age 18 or an amount related to a base calculated from the State's fiscal year 1978 Federal foster care funds indexed each year by a percentage twice the increase in the Consumer Price Index but not to exceed 10 percent each year. In fiscal year 1984, 31 States opted for a voluntary foster care ceiling and transferred approximately $32 million from their foster care allocation to use for child welfare services. Current estimates are that in fiscal year 1985 28 States will transfer $30 million to child welfare services under a voluntary ceiling.

Description of proposal:

The President's budget proposes that the amount of foster care funds available to States for fiscal year 1986 be limited to the current estimate of State's claims for fiscal year 1985, i.e., $485 million. That amount is the combination of estimates of the $455 million which States are estimated to claim for foster care and the $30 million amount that States will transfer to use for child welfare

services from their foster care allocation under a voluntary foster care ceiling in fiscal year 1985. The administration has indicated that this limitation on funding would be for fiscal year 1986 only. In addition, the administration has stated its intent to propose legislation "to improve incentives for States in future years to reduce the duration of children's stays in foster care."

Impact:

The administration and CBO have estimated that this limitation would save approximately $22 million in fiscal year 1986 compared to the continuation of current law.

Committee staff has estimated that approximately one-half of the savings would be in the form of reduced funds available to States for child welfare services. This results from the freeze on the indexing of the optional foster care ceiling which then reduces the amount of funds available to States to transfer to use for title IV–B child welfare services. The other savings would be from limitations on foster care funds available primarily in those States whose needs for AFDC foster care funds have exceeded the amount provided under the optional foster care ceiling.

Effective date:

October 1, 1985.

DESCRIPTION OF STAFF REDUCTIONS IN SELECTED MAJOR PROGRAMS

Social Security

The President's Budget assumes a reduction of 1,913 full-time equivalent (FTE) staff in fiscal year 1985, and 1,689 FTE staff in fiscal year 1986. These reductions would bring SSA staff down by 3,602 over a 2-year period, from a fiscal year 1984 level of 79,951 to 76,349 in 1986. This reduction would be in addition to a reduction already made in the last 2 years of 2,532, from 82,483 in fiscal year 1982 to 79,951 in fiscal year 1984.

Further reductions totaling 17,000 FTE's are scheduled to be made in fiscal years 1987–1990, bringing SSA employment down to a total of 62,945.

These reductions are primarily in field office personnel—that is, district and branch offices, contact stations and teleservice centers—which is where the vast majority of SSA staffing is located. (About 8,000 out of 80,000 jobs are considered staff positions, in headquarters, regional offices and program service centers. These are policy formulation, research, statistical and data collection, public information, regulation development, etc. positions.)

Health Care Financing Administration

The budget proposes a reduction from 4,100 FTE staff in fiscal year 1984 to 3,980 FTE staff in fiscal year 1985 and to 3,800 FTE staff in fiscal year 1986. This is a 5 percent reduction between 1985 and 1986.

U.S. Customs Service

The administration's proposed budget for fiscal year 1986 provides for a reduction of $11,586,000 for salaries and expenses from the authorized levels of fiscal year 1985. This would result in a reduction in the number of permanent positions of 886 (from 13,500 in fiscal year 1985 to 12,614). Included in these cuts would be the elimination of 206 Customs inspectors and 244 import specialists. This reduction is likely to have a severe adverse impact on the Customs Service's ability to collect Customs revenues, interdict narcotics, and enforce the many laws for which it is responsible.

Internal Revenue Service

The administration's request for the Internal Revenue Service for fiscal year 1986 assumes a reduction in staffing levels of 1,254 positions from the authorized levels. To achieve the reduction, the administration proposes to reduce administrative services by 10 percent ($21.7 million) through reductions of 566 positions and $18.4 million in administrative staff including personnel, budget and accounting, training, facilities management, etc.; and a reduction in grades GS 11–15, except for enforcement personnel, with savings of $3.3 million. There are other reductions in programs and staff of 664 positions and $65.7 million, including reductions of 3 percent in Collection, Appeals and Tax Litigation, Enforcement Litigation and Rulings, Employee Plans and Exempt Organizations, Returns Processing and Revenue Accounting, and Taxpayer Service. The statistics of income program, a part of Returns Processing, is being reduced 20 percent.

The budget for the Internal Revenue Service proposes an appropriation level of $3,511 million, an amount which is equal to the level authorized in the fiscal year 1985 Continuing Resolution and $30.4 million below the level requested for fiscal year 1985.

PART III

Summary of Administration's Revenue Proposals

SUMMARY OF ADMINISTRATION'S REVENUE PROPOSALS

The administration's fiscal year 1986 budget includes a number of revenue proposals that were contained in earlier budgets, and some new proposals. Together, the administration's proposals would reduce revenues slightly in 1986, 1987, and 1988, and increase them slightly in 1989 and 1990 (see table 5 in Part I).

Hazardous Substance Response Trust Fund ("Superfund")

Present law:

Under present law, excise taxes are imposed on crude oil and certain chemicals, and revenues equivalent to these taxes are deposited into the Hazardous Substance Response Trust Fund ("Superfund"). These amounts are available for expenditures incurred in connection with releases or threatened releases of hazardous substances into the environment. These provisions were enacted in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), which established a comprehensive system of notification, emergency response enforcement, and liability for hazardous spills and uncontrolled hazardous waste sites.

A crude oil tax of 0.79 cent per barrel is imposed on the receipt of crude oil at a U.S. refinery, the import of crude oil and petroleum products, and the use or export of domestically produced crude oil (if the tax has not already been paid).

An excise tax on chemicals is imposed on the sale or use of 42 specified organic and inorganic substances if the substance is produced in or imported into the United States. The taxable chemicals generally are chemicals that are hazardous or chemicals which may create hazardous products or wastes when used. The rates vary from 22 cents per ton to $4.87 per ton.

In addition to the taxes described above, present law authorizes appropriations to the Superfund from general revenues of $44 million per year for fiscal years 1981 through 1985 (i.e., a total of $220 million). Certain amounts received from persons responsible for pollution, as well as penalties and punitive damages, are also appropriated to the Superfund.

The crude oil and chemical excise taxes are scheduled to terminate after September 30, 1985.

Administration proposal:

Under the administration proposal, the Superfund taxes would be extended and the annual revenue increased to provide trust fund receipts of $900 million per year for the period 1986–1990.[1]

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[1] While the budget receipts proposal estimate covers only the years 1986–1988, it is understood that a 5-year reauthorization is contemplated.

The budget estimates that these receipts would allow a $1.1 billion average annual program level over this period (i.e., an aggregate $5.5 billion program).[2] The administration does not propose any further appropriations to the Superfund from general revenues.

The administration budget does not specify what taxes will be proposed to provide these expanded revenues.

Subsequent to its budget message, the administration submitted proposed legislation to amend CERCLA.[3] The proposed amendment would authorize a fund of approximately $1 billion per year, or roughly $5.3 billion from fiscal year 1986 through fiscal year 1990.

The amendment would establish a fund with revenue derived primarily from three sources.

The first source of revenue would be derived from a feedstock tax. This tax would be imposed on crude oil and petroleum products as well as the 42 chemical feedstocks taxed under the present statute. The tax rates imposed on these feedstocks would remain the same as the rates established in 1980: approximately $4.87 per ton for petrochemical feedstocks, approximately $4.45 per ton for inorganic raw materials (with adjustments for elemental equivalency), and 0.79 cent per barrel for crude oil and petroleum products. This feedstock tax would maintain the current CERCLA exemptions on methane or butane used as fuel, substances used in the production of fertilizers, sulfuric acid produced as a byproduct of air pollution control, substances derived from coal, and taxable chemicals made from previously taxed taxable chemicals. The feedstock tax has been designed to raise approximately $300 million per year.

The second source of revenue would be derived from a waste-management tax. This tax would be imposed on the receipt of hazardous wastes at a qualified treatment, storage, or disposal unit (i.e., a unit permitted under the Resource Conservation and Recovery Act (RCRA)), as well as on hazardous wastes disposed of in the ocean or exported from the United States. The tax liability would be imposed on the owner or operator of a qualified hazardous waste management facility, the owner or operator of a vessel that disposes of wastes into or over the ocean, and the exporter of hazardous wastes.

The tax rates imposed under the waste-management tax would increase each year of the tax, and would be higher for landfills, surface impoundments, waste piles, and land treatment units. The following amount per wet-weight ton would be imposed:

	Rate per ton [1]
Fiscal year:	
1986	$9.80
1987	10.09
1988	11.13
1989	13.48
1990	16.32

[2] See, fiscal year 1986 Budget, Part 5, pp. 5–42.

[3] Superfund legislation, communication from the President of the United States, 99th Cong., 1st sess.; House Doc. 99–32, February 26, 1985.

For waste exported from the U.S., disposed into or over the ocean, or received at a qualified hazardous waste management unit other than specified above, the following amount per wet-weight ton would be imposed:

	Rate per ton [1]
Fiscal year:	
1986	$2.61
1987	2.68
1988	2.96
1989	3.59
1990	4.37

[1] Beginning in 1987, the tax rates would be adjusted annually to compensate for any shortfalls in projected revenues. If necessary to meet revenue targets, the tax may be extended from October 1, 1990, through March 31, 1991, at the same rates applicable in fiscal year 1990.

Wastes managed in units not subject to permits under subtitle C of RCRA (e.g., wastes stored in tanks and containers for less than 90 days), wastes from CERCLA response actions, and wastes generated by Federal facilities would not be subject to the waste-management tax. Additionally, a credit would be given for taxes already paid on wastes that are transferred from one taxable unit to another. If the units involved in the transfer have different applicable tax rates, the credit would be based on the lower rate.

The waste-management tax has been designed to raise approximately $600 million per year.

The third source of revenue would be derived from interest on Superfund investments, fines, costs recovered from parties responsible for response actions financed from the fund, and intra-fund transfers. This portion of the fund would raise approximately $100 million per year.

Impact:

In its current services receipts projections, the administration includes an extension of these taxes at rates sufficient to match projected trust fund budget authority for 1986–1990. The assumed tax rates would require the removal of the cap on trust fund revenues, originally imposed in 1980 to ensure the termination of taxes when cumulative collections reached $1.38 billion. The proposed extension and increase in taxes would raise unified budget receipts by a net amount of about $630 million in 1986, growing to $720 million in 1990, when measured relative to receipts generated under current law. When measured relative to the administration's current services receipts estimates, the proposed tax increases would add about $300 million to net receipts in 1986, growing to about $330 million in 1990.

Prior action:

The administration did not propose extending the Superfund taxes in the 1985 budget.

On August 10, 1984, the House of Representatives passed legislation (H.R. 5640)[4] to provide estimated funds of $10.1 billion to the Superfund over the fiscal year 1986–1990 period, including $2.3 billion in general revenue appropriations. To provide expanded tax revenues, H.R. 5640 would have increased the present law crude oil and chemical excise tax rates effective January 1, 1985, with further increases to take effect on January 1, 1987, if a tax on disposal of hazardous waste ("waste-end tax") were not enacted by July 1, 1986. A bill (S. 2892) extending the Superfund program for 5 years, at a total cost of $7.5 billion, was also reported by the Senate Committee on Environment and Public Works,[5] the reported bill did not contain a specific tax proposal. The Senate Committee on Finance held hearings on the Superfund financing proposals, but did not mark up or report a bill.

Black Lung Disability Trust Fund

Present law:

A manufacturers excise tax is imposed on domestically mined coal (other than lignite) that is sold or used by the producer of the coal. The rate of tax is $1 per ton for coal from underground mines and 50 cents per ton for coal from surface mines, but the tax cannot exceed 4 percent of the price for which the coal is sold.[6]

Amounts equal to the revenues collected from the coal excise tax are automatically appropriated to the Black Lung Disability Trust Fund.[7] The trust fund pays certain black lung disability benefits to coal miners (or their survivors) who have been totally disabled by black lung disease in cases where no individual coal mine operator is found responsible for the individual miner's disease. Any shortfall between trust fund expenses and excise tax revenue is financed with repayable (with interest) loans from the Federal Treasury.

The taxes were last adjusted by the Black Lung Revenue Act of 1981 (Public Law 97–119), which raised the tax from $0.50 to $1 per ton for underground mining and from $0.25 to $0.50 per ton for surface mining.

Administration proposal:

The administration proposes to increase the tax on coal production from $1.00 to $1.50 per ton for underground mining and from $0.50 to $0.75 per ton for surface mining. This is a new proposal.[8]

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[4] See, H. Rept. No. 98–890 Part 1, July 16, 1984 (as reported by the House Committee on Energy and Commerce); H. Rept. No. 98–890, Part 2, August 8, 1984 (as reported by the House Committee on Ways and Means).

[5] See, S. Rept. No. 98–631, September 21, 1984.

[6] On the earlier of Jan. 1, 1996, or any January 1 after 1981 on which there is no balance of repayable advances to the trust fund and no unpaid interest on such advances, the tax rates are scheduled to return to the pre-1982 rates, which were one-half the current rates (i.e., 50 cents/ton for underground mines, and 25 cents/ton for surface mines, limited to 2 percent of the price for which the coal was sold).

[7] Revenues from so-called "penalty" excise taxes on certain activities (e.g., self-dealing, excess contributions) of black lung benefit trusts also are automatically appropriated to the trust fund.

[8] Another proposal, not within the committee's jurisdiction, would freeze benefit payment levels through at least fiscal year 1986.

Impact:

The proposed fee increases are considered necessary because black lung disability receipts have not kept pace with expenditures, leading to a rapidly growing trust fund deficit (loans and interest owed the Federal Treasury). This proposal is designed to put the fund on a path that would freeze the cumulative deficit over the 1986–1990 period by raising receipts to cover expected outlays and begin repayment of loans after 1990. It would raise net unified budget receipts by about $210 million in 1986 and $260 million in 1990.

Deposits of Social Security Taxes by State and Local Governments

Present law:

Each State may enter into a voluntary agreement with the Federal Government to provide Social Security coverage for employees of the State government and any of its political subdivisions. As a result of the Social Security Amendments of 1983, these voluntary agreements can no longer be terminated by the State. A State which enters into an agreement for Social Security coverage is responsible for collecting from its local subdivisions their employer taxes and the Social Security taxes withheld from employees.

Payments of Social Security taxes are first made by the local subdivisions to the State, which also is responsible for verifying the payments. Then, the State deposits with the Federal Government these payments and the appropriate amounts with respect to its own employees.

As a result of the Social Security Amendments of 1983, States are required to make semimonthly deposits of the Social Security taxes on behalf of their own employees and those of their subdivisions. (Prior to the 1983 amendments, States deposited monthly.) Private employers and Federal Government are required to deposit Social Security and withhold individual income taxes as frequently as eight times a month, whenever the amount of these taxes exceeds $3,000; these rules also apply to State and local governments with respect to withholding income taxes.

In addition, late deposits by State governments are subject to a penalty charge of 6 percent. Private sector employers pay a penalty rate which is based on the prime interest rate charged by major commercial banks.

Administration proposal:

Two basic changes to the deposit schedule would be made under the administration proposal. First, State governments no longer would be liable for the deposits of taxes of their political subdivisions; the subdivisions would be responsible for making their own timely deposits. Second, State and local governments would be required to conform to the same deposit schedule as is required of private sector employers and for State and local government deposits of individual income taxes. These changes would be phased in over a 3-year period beginning on October 1, 1985.

In addition, late deposits would be subject to the prime interest rate as the penalty rate. (A similar House-passed provision was

dropped during the conference on the 1983 Social Security Amendments.)

Impact:

Accelerating the deposit schedule would increase receipts by approximately $700 million in the next 3 fiscal years. The increased interest penalty would raise approximately $100 million during this period.

Tax Treatment of Railroad Retirement Benefits

Present law:

Under present law Railroad Retirement tier I benefits are taxed according to the rules which apply to Social Security benefits. Tier I benefits are generally described as being identical to Social Security benefits. However, in certain cases a tier I benefit is paid when no corresponding Social Security benefit is available. The most significant instances of such benefits are the early retirement benefit which is available at age 60 if the worker has 30 years of rail employment and the rail industry occupational disability benefit. No similar benefits are available to workers covered by Social Security.

Tier II benefits are generally described as being equivalent to a private pension. Windfall benefits are available to a closed group of workers who were eligible to receive benefits under both the Social Security and Railroad Retirement systems prior to 1975.

Railroad Retirement tier II and windfall benefits are subject to Federal income tax for all recipients to the extent the payments exceed the amount of the individual's previously taxed contributions to the plan. These rules are identical to those which apply to private pensions.

Administration proposal:

Under the administration proposal, those tier I Railroad Retirement benefits which are not identical to Social Security benefits would be taxed under the rules that apply to all other payments under the Railroad Retirement system, effective on January 1, 1986.

Impact:

Approximately $200 million would be raised during the next 3 fiscal years as a result of this proposal.

Coverage of Railroad Workers Under the Regular Federal-State Unemployment Insurance System

Present law:

Under present law, railroad employment is not covered by the Federal-State unemployment insurance system. Since 1939, the Railroad Unemployment Insurance Act (Public Law 75-722) has provided a uniform unemployment insurance system for all workers, regardless of the State in which they worked or lived.

Administration proposal:

The administration will submit legislation to cover rail workers under the regular Federal-State unemployment insurance system. The legislation would be effective October 1, 1985.

From October 1, 1985, until December 31, 1988, States would be allowed to treat rail employers as "reimbursable employers." That is, rail employers would reimburse the States for the full cost of unemployment benefits paid to rail employees. After December 31, 1988, rail employers would make contributions to State unemployment insurance systems in the same manner as other employers in the States.

Rail employers would continue to pay railroad unemployment insurance taxes into the Railroad Sickness and Unemployment Insurance Fund to finance sickness benefits and to repay the substantial loans the Railroad Retirement Account has made to the fund. The Railroad Retirement Solvency Act of 1983 (Public Law 98–76) prohibits further such lending, effective September 30, 1985.

Impact:

The administration estimates that unemployment insurance receipts would increase by about $150 million each year. The CBO estimates are slightly higher than those of the administration. These differences are explained by CBO's assumption of higher unemployment, which necessitates higher benefit payments.

Internal Revenue Service User Fees

Present law:

The Internal Revenue Service (IRS) does not currently charge taxpayers for issuing determination letters or rulings. In 1983, the IRS issued 135,234 advance determination letters on the qualification of corporate and self-employed pension plans. The IRS acted on 53,947 determination letters and ruling requests from tax-exempt organizations during that year. The IRS also issued 34,399 private letter rulings in response to taxpayers' requests during that year.

Administration proposal:

The administration proposes a $100 fee for each IRS letter of determination requested by a pension fund or a tax-exempt organization. The $100 fee would also apply to private letter rulings, whch are clarifications of the IRS position regarding unusual circumstances, such as changes in accounting periods or methods. The fees would generate about $40 million in receipts per year. These fees are proposed to become effective on October 1, 1985.

Internal Revenue Service Tax Compliance Initiative

Present law:

In fiscal year 1985, there are approximately 29,000 examination employees at the Internal Revenue Service. These employees are responsible for auditing tax returns.

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Administration proposal:

The administration proposal would increase the number of examiners in fiscal year 1986 by 322 positions. The administration proposal includes a tax compliance initiative which would increase the number of examination employees by 2,500 a year for fiscal years 1987, 1988, and 1989, resulting in an aggregate increase in examination employees of 7,500 by the end of fiscal year 1989. Advance hiring would begin in fiscal year 1986.

Impact:

The added revenues attributable to this increase are estimated to be $0.5 billion, $1.5 billion, and $2.6 billion in 1987, 1988, and 1989, with concurrent costs of $100 million, $200 million, and $300 million.

The administration's assumptions for 1990 are unclear. The estimated revenue gain of $2.8 billion in 1990 assumes continued employment of the 7,500 examiners. The administration's 1990 outlay estimates, however, do not include any amount to cover the cost of continued employment during that year, about $300 million. If that cost was included, the 1990 deficit reduction attributable to this intitiative would be about $2.5 billion instead of the $2.8 billion included in the administration's budget.

Prior action:

The administration's budget proposal for fiscal year 1983 included a requested increase of 1,000 examination employees. Section 352 of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) contained a sense of the Congress resolution that additional funds be appropriated to provide for staffing levels beyond those proposed by the administration so that additional tax revenues of $1 billion in fiscal year 1984 and $2 billion in fiscal year 1985 would be collected.

In fiscal year 1983, IRS staffing actually increased by approximately 5,225 employees. Of this total, 1,000 were examination employees. Most of the remaining new employees were responsible for either collecting taxes already owing or for locating taxpayers who had not filed tax returns but who were required to do so. The administration determined that all these new employees generated approximately $3 billion in increased revenue in 1983.

Enterprise Zones

Present law:

Under present law, certain restrictions relating to industrial development bonds and mortgage subsidy bonds are relaxed in economically distressed areas. In addition, certain domestic corporations deriving income from Puerto Rico and possessions of the United States are eligible for a tax credit that eliminates U.S. tax on that income.

Administration proposal:

The administration proposes that beginning in 1985 up to 25 small areas per year (not to exceed 75 in total) be designated as

"enterprise zones." Effective January 1, 1986, the following tax incentives would be available for economic activity in the zones:

(1) an exemption from tax of capital gains on certain qualified property;

(2) a tax credit for employees equal to 5 percent of the first $10,500 of wages earned;

(3) a tax credit for employers equal to 10 percent of any increases in their payrolls (up to $1,750 per employee);

(4) a separate tax credit for employers of certain disadvantaged individuals equal to 50 percent of the wages of such persons for the first 3 years of employment (the percentage declines by 10 points in the fourth year and each year thereafter);

(5) an increase of 50 percent in the regular investment tax credit for investment in equipment;

(6) a 10-percent investment tax credit for new construction and reconstruction of buildings; and

(7) continued availability of tax-exempt bond financing beyond the 1986 sunset date for small issue bonds.

These incentives generally would remain fully in effect for 20 years and would be phased out over the succeeding 4 years. (An enterprise zone could be designated for a period of less than 20 years.)

Impact:

The proposal is estimated by the administration to reduce revenues by about $1.4 billion over the 1986–1988 period and by $3.7 billion through 1990. These losses are very difficult to estimate because they would depend on the size and characteristics of the zones as designated by the Secretary of the Department of Housing and Urban Development. The proposal gives the Secretary such wide latitude in his choice that specific cost estimates are impossible to make. The Treasury's estimates are based on assumptions that might or might not apply to enterprise zones. For example, if average employment in the zones was lower than the Treasury assumptions, revenue losses could be lower; conversely, if employment was higher or the average size of zones was larger, revenue losses could be greater.

Prior action:

The administration proposed similar provisions in its fiscal year 1984 and 1985 budgets. Enterprise zone tax incentives similar to the administration's proposal were passed by the Senate in June 1983 and April 1984, but were deleted in conference.

Also, the House Committee on Ways and Means held a hearing on November 17, 1983, on the administration's proposal (contained in H.R. 1955).

Tuition Tax Credit

Present law:

Present law does not provide any tax credit or deduction for personal educational expenses.

Administration proposal:

The administration proposal would provide a nonrefundable income tax credit equal to 50 percent of certain tuition expenses paid to private elementary and secondary schools for qualified dependents of the taxpayer, subject to a dollar limitation. No credit would be allowed for payments to any school that follows a racially discriminatory policy.

The credit would apply to tuition payments made after July 31, 1985. The maximum credit would be $100 in 1985, $200 in 1986, and $300 in 1987 and subsequent years. Additionally, the maximum credit would be phased down for taxpayers with adjusted gross incomes greater than $40,000, with no credit being allowed to taxpayers with adjusted gross incomes in excess of $60,000.

Impact:

The revenue loss from the credit is estimated to start at $360 million in 1986 and level off around $900 million per year when fully phased in 2 years later. The revenue loss could be greater if the recently observed growth in private school enrollments continues.

If enacted, the tuition credits would constitute a relatively large share of total general-purpose Federal aid for elementary and secondary education. Currently, the major source of untargeted Federal aid is the chapter 2 block grant, with proposed budget authority of $500 million for 1986. Most of the remaining $6.1 billion in Federal aid for elementary and secondary education is targeted on children or local districts with special needs, on districts adversely affected by Federal installations, or on particular services such as vocational education.

Prior action:

The administration proposed a similar credit for tuition expenses as part of its fiscal year 1984 and 1985 budgets.

During the 98th Congress, the Senate Committee on Finance reported a bill, S. 528 (S. Rep. 98–154, June 20, 1983), containing provisions similar to the administration proposal. In 1983, the Senate considered, but did not adopt, the provisions of S. 528, as an amendment in the nature of a substitute to H.J. Res. 290.

Education Savings Accounts

Present law:

Under present law, there is no specific provision that permits deductions for, or excludes from tax the income on, accounts contributed by an individual to a trust or account to pay education expenses of the individual or a child of the individual. However, certain types of "job-related" education expenses may be deducted by an individual as ordinary and necessary business expenses. Also, custodial accounts and other trusts may be established for a child; the income of such an account and trust may be taxed at the child's applicable tax rate.

Administration proposal:

Effective for taxable years beginning after December 31, 1985, the administration proposal would create a permanent tax exclusion for all interest and dividends earned on accounts deposited by parents in qualified education savings accounts, provided the deposits were used for eligible education expenses of their children. No deductions would be permitted for contributions to the account. If amounts are withdrawn from the account and not applied to eligible education expenses, the tax otherwise due on the earnings would be recaptured and a penalty tax generally would be imposed.

In general, eligible education expenses would include tuition and room and board incurred on behalf of a full-time student for post-secondary education. However, amounts paid to schools that follow a racially discriminatory policy would not be treated as eligible expenses. Certain reporting obligations would be imposed on the financial institutions maintaining the accounts and the colleges or universities receiving withdrawals from such accounts.

Deposits to these accounts would be subject to a number of limitations. First, under the proposal, the maximum annual contribution to a qualified education savings account would be $1,000 per child. However, the $1,000 limit would be reduced by 5 percent of the amount by which the taxpayer's adjusted gross income exceeds $40,000. Thus, no contribution could be made by a taxpayer whose adjusted gross income exceeds $60,000. Second, no contribution could be made on behalf of a child over the age of 18, and in no case could an account be maintained after the beginning of the taxable year in which a child attains age 26.

Impact:

The revenue loss from these accounts would be small initially, but would grow rapidly for 10 years or more as amounts deposited grew. The administration projects a revenue loss of about $30 million in 1986, increasing to about $700 million in 1990. By the mid-1990's revenue reductions from such accounts could equal $2 billion per year.

Prior action:

A substantially similar proposal was included in the administration's fiscal years 1984 and 1985 budgets.

Restructuring of the Dependent Care Tax Credit

Present law:

Present law provides a nonrefundable tax credit for a portion of employment-related dependent care expenses paid by an individual who maintains a household that includes one or more qualifying individuals. The maximum credit equals 30 percent of employment-related expenses (up to a maximum of $2,400, if there is one qualifying individual, and $4,800, if there are two or more qualifying individuals) of individuals with $10,000 or less of adjusted gross income (AGI). Accordingly, the maximum credit is $720 if there is one qualifying individual or $1,440 if there are two or more qualifying individuals. The maximum 30-percent credit is reduced (but not

below 20 percent) by 1 percentage point for each $2,000 (or fraction thereof) of adjusted gross income above $10,000.

Administration proposal:

The proposal would increase the percentage of employment-related dependent care expenses eligible for the credit to 40 percent for an individual with adjusted gross income of $10,000 or less. This percentage would decrease as income increases, so that the percentage would be zero for individuals with adjusted gross income of $60,000 or more. The proposal would be effective for taxable years beginning after December 31, 1985.

Impact:

The credit would be raised for taxpayers with AGI's under $35,000 (about 70 percent of taxpayers claiming the credit in 1982) and lowered for the remaining taxpayers with higher AGI's. For example, for a family with $16,500 of AGI, the credit would be 36 percent of expenses under the proposal, instead of 26 percent under current law. The administration estimates that this would reduce revenues by about $20 million in 1986, $200 million in 1987 and in 1988, and by diminishing amounts thereafter. This is the second year the proposal has been made.

Qualifying expenses are those that enable a person to be gainfully employed and that are spent for the care of children under 15 years of age or other people unable to care for themselves. A family with $16,500 in AGI and one dependent could claim a maximum of $864 under the proposal, instead of $624 under current law. In contrast, a taxpayer with $60,000 or more in AGI and two dependents would receive nothing under the proposal, compared with a credit of $960 under current law. Thus, the restructuring of the credit would shift its benefits more to those less able to afford child care and more in need of assistance to make a job financially practical. Many single-parent families would benefit. One out of five families with dependent children is female-headed, and the median 1982 income of such families, as reported in a Bureau of the Census survey, was $9,000, compared with $27,000 for two-parent families with dependent children.

Prior action:

A substantially similar proposal was included in the Administration's 1985 budget.

Extension of the Credit for Research and Experimental Expenditures

Present law:

The Economic Recovery Tax Act of 1981 enacted a 25-percent income tax credit for certain qualified research expenditures incurred by a taxpayer during the year in carrying on a trade or business. The credit applies only to the extent that the taxpayer's qualified research expenditures for the taxable year exceed the average amount of yearly qualified research expenditures in the specified base period (generally, the preceding 3 taxable years). The credit is scheduled to terminate after 1985.

The definition of research for purposes of the credit is the same as that used for purposes of Code section 174, under which a current deduction is allowed for research and development costs in the experimental or laboratory sense. The amount of the section 174 deduction is not reduced by any amount of the credit.

Expenditures eligible for the credit consist of (1) "in-house" expenditures for research wages and supplies used in research, plus certain amounts paid for research use of computers, laboratory equipment, or other personal property; (2) 65 percent of amounts paid by the taxpayer for contract research conducted on its behalf; and (3) if the taxpayer is a corporation, 65 percent of its expenditures (including grants or contributions) for basic research to be performed by universities or certain scientific research organizations.

Administration proposal:

The administration proposal would extend for 3 years (i.e., for expenditures through December 31, 1988) the credit for increased research expenditures. A similar proposal was included in the administration's fiscal year 1985 budget proposal.

Impact:

Extension would reduce income tax revenues by about $660 million in 1986 and about $5 billion over the 1986–1990 period.

Prior action:

As passed by the Senate, the 1984 deficit reduction bill (H.R. 4170) would have made permanent the credit for increased research expenditures, and would have modified the definition of credit-eligible expenditures in certain respects. This provision was deleted in conference.

Financing and Administering State Unemployment Compensation Programs

Present law:

Under present law, employers are subject to Federal unemployment insurance tax (FUTA) on the wages and salaries of employees. These taxes, together with State payroll taxes, finance the Federal-State unemployment compensation system. The proceeds of both Federal and State payroll taxes are included in the receipts portion of the Federal budget.

A portion of the FUTA taxes is used to finance the administrative costs of the State Unemployment Insurance and Employment Service programs. The State payroll taxes finance State unemployment insurance benefits.

The Federal Government has decisionmaking authority with respect to the allocation of FUTA taxes among various administrative needs (e.g., claims processing, appeals).

Administration proposal:

Under the administration's proposal, the responsibility for financing and administering the State Unemployment Insurance and Employment Service programs would be transferred to State

governments. Effective January 1, 1988, the net FUTA tax rate would be reduced to reflect this transfer of authority. The administration anticipates that the State payroll taxes would be increased to reflect the additional administrative costs assumed by the States.

Appendix A

Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344)—An Overview

Excerpt From Public Law 93-344—The Congressional Budget and Impoundment Control Act of 1974

CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 (PUBLIC LAW 93-344)

1. An Overview

OUTLINE OF CONGRESSIONAL BUDGET PROCESS UNDER PUBLIC LAW 93-344

On April 15 of each year, the Budget Committees of the House and Senate report to their respective Houses a concurrent resolution which is, in effect, a congressional budget document setting forth appropriate levels for spending revenues and public debt for the coming fiscal year. The spending levels are broken down into functional categories (such as "health," "income security," "national defense"). The recommendations in the resolution reported by the Budget Committee are subject to debate and amendment. When agreed to by the House and Senate (by May 15), the resolution represents congressional judgment of the appropriate fiscal situation for the coming year, although the amounts set forth in it are not otherwise binding.

After the May 15 adoption of the concurrent resolution, action on spending and revenue bills proceeds through early September. In the first half of September, a second concurrent resolution on the budget is considered by the Congress, which revises or reaffirms the earlier resolution and which can direct the appropriate committee to report legislation changing spending, revenue, or debt limit levels (or any combination of the three). Upon adoption of the resolution, committees directed to do so are to report the legislation called for by the resolution, and this legislation is then debated by Congress as part of a "reconciliation bill." Public Law 93-344 calls for action on this reconciliation bill to be completed by September 25, 5 days before the start of the new Federal fiscal year which will run from October 1 to September 30.

WAIVER OF RULES REGARDING BUDGET PROCEDURE

All the rules applicable to House procedures under the Congressional Budget Act can be suspended by a majority vote of the House. In addition, the act includes a special waiver procedure in connection with the provisions requiring that authorization bills not be acted on after May 15 and that revenue, debt limit, and spending bills (including social security, welfare, etc.) not be acted on before May 15. If a committee wished to have such legislation considered outside of the prescribed time, it would report out a resolution providing for waiver of the rule. This resolution would be referred to the Budget Committee which would have 10 days in which to consider and make its recommendations with respect to the waiver. Once the resolution is approved by the Budget Committee (or after 10 days in any case), the resolution of waiver would be

voted upon by the House, and, if it is approved, the House could proceed to consider the legislation.

2. Impact of Public Law 93-344 on Ways and Means Committee

Legislation which results in additional federal spending

Annual report to Budget Committee.—Each year, prior to the consideration of the first concurrent resolution on the budget, each committee is required to make a report to the Budget Committee estimating the amount of additional Federal spending during the coming fiscal year which will result from legislation under the committee's jurisdiction. This report is due no later than March 15.

Report after adoption of concurrent budget resolution.—The conference report on each budget resolution allocates the outlay and budget authority totals among the various committees. Each committee is then required, after consultation with the appropriate counterpart committee in the Senate, to subdivide its allocation of new budget authority and outlays among the programs under its jurisdiction (or among its subcommittees). These allocations subsequently serve as the basis for scorekeeping reports and for judging whether particular legislative proposals are consistent with the budget resolution.

Limitation on consideration of spending bill.—The Congressional Budget Act provides that bills involving entitlement programs (such as welfare) and bills directly increasing budget authority (such as social security or unemployment insurance) may not be considered in the House prior to the May 15 adoption of the first concurrent budget resolution. This requirement may be waived under the special waiver procedure or by a majority vote of the House of Representatives to suspend this rule. The act also requires that action on legislation of this type be completed by the seventh day after Labor Day. In addition, entitlement legislation (other than trust fund legislation) reported after January 1 of any year may not have an effective date prior to October 1 of that year.

Deadline for reporting authorizing legislation.—Legislation which authorizes appropriations (but does not necessarily require them) has to be reported by May 15 preceding the fiscal year for which the appropriations are authorized. (The act includes a procedure under which this deadline may be waived by House resolution; the rule may also be suspended by a majority vote of the House.) The Committee on Ways and Means has jurisdiction over some programs which fall in this category, such as grants to States for child welfare services. However, if such authorizations are included in entitlement or trust fund bills (which may not be reported prior to May 15), this provision does not apply.

Impact of concurrent budget resolutions on legislation.—The first concurrent resolution, which is to be passed about May 15, sets targets for spending in various areas.

While the budget totals included in the first resolution are in the nature of targets and are not strictly mandatory, they tend to establish fairly firmly the guidelines within which the Congress considers legislation affecting revenues and spending. Thus, if unrealistic objectives are used in setting first resolution totals, com-

mittees, may subsequently find their ability to act on desired legislation impaired.

A second concurrent resolution is to be passed in mid-September, and this resolution not only sets appropriate spending levels but may direct the committees having jurisdiction over spending legislation to report measures to rescind previously enacted spending authority so as to bring spending for the coming fiscal year within the levels determined to be appropriate. In the case of the Committee on Ways and Means, this may include a requirement that the committee report legislation to defer or reduce benefits under entitlement programs including both trust fund programs (such as unemployment insurance or social security) and non-trust-fund programs (such as welfare or social services).

After the beginning of a fiscal year, new spending measures for that fiscal year would be subject to a point of order if they would cause the spending limits in the concurrent resolution passed just before the beginning of that year to be exceeded. In the case of the Committee on Ways and Means, this limitation would apply to entitlement legislation dealing with both trust fund and non-trust-fund programs. (A new concurrent resolution could, however, be passed to authorize such additional spending, or the rule could be suspended by a majority vote of the House.)

Appropriations Committee review of entitlement bills.—Legislation in such areas as supplemental security income, welfare, or social services creates an entitlement to payments on the part of individuals or State or local governments even though these programs are funded through appropriation acts. The Congressional Budget Act requires that any future legislation which would create new entitlement programs or increase existing ones must be referred to the Appropriations Committee for a period of 15 days after it is reported by the substantive committee, if its enactment would exceed the amount provided for in the first budget resolution. The Appropriations Committee could not recommend any substantive changes in the legislation (e.g., lower individual benefit amounts), but it could recommend an amendment to limit the total amount of funding available for the legislation. If such amendment is approved by the House, the substantive committee might have to propose a further amendment to conform the legislation to that funding limit.

The requirement of referral to the Appropriations Committee would not apply to legislation affecting existing Social Security Act trust fund programs or other trust fund programs substantially funded through earmarked revenues.

Report on spending legislation.—The Congressional Budget Act requires the committee, in reporting legislation involving increased spending, to include in the report information showing how that spending compares with the amount of spending provided for in the most recent concurrent budget resolution. In addition, the report is required, to the extent practicable, to provide a projection for five fiscal years of the spending which will result from the legislation.

LEGISLATION RELATING TO REVENUES AND DEBT LIMIT

Annual report to the Budget Committee.—The March 15 annual report to the Budget Committee which is described above also must, in the case of the Ways and Means Committee, present views and estimates of the committee with regard to revenues and the debt limit.

No revenue legislation prior to May 15.—Under the Budget Act, debt limit or revenue legislation for the upcoming fiscal year is not in order for consideration by the House (or Senate) prior to the adoption of the first concurrent resolution on the budget (about May 15). This rule would not prevent action on revenue changes to be effective in years after the upcoming fiscal year. (A procedure for waiving this limitation is provided for; the rule could also be suspended by a majority vote of the House.)

Impact of budget resolution.—As with spending measures, the first concurrent resolution adopted in mid-May sets targets with respect to revenue and debt limit legislation, and the second concurrent resolution in September may direct the Committee on Ways and Means to report legislation to achieve the changes in aggregate revenues or in the debt limit which the Congress determines to be appropriate. Such legislation would have to be reported in time to be included in the reconciliation bill which would be acted upon before the October 1 start of the fiscal year. Once a second resolution on the budget is adopted by the Congress, any legislation which would cause the total revenues to be reduced below the level specified in the budget resolution would be subject to a point of order. If the second budget resolution set a revenue target which exactly matches the projected revenues under existing law (or any expected modifications to existing law), even minor bills having nearly negligible revenue impacts can be rejected on a point of order. As indicated above in describing the impact of the resolution on spending legislation, even the "nonmandatory" first resolution tends to be given great weight in the actual consideration of legislation. Thus, if the first resolution includes unrealistic revenue goals, the committee may face difficulties in the consideration of any revenue legislation.

Required report on tax expenditures.—The Congressional Budget Act defines the term "tax expenditures" to include any revenue losses attributable to tax provisions such as income exclusions, tax credits or deferrals, or preferential tax rates. The law requires that the committee report accompanying legislation to provide new or increased tax expenditures include information as to how such legislation will affect the level of tax expenditures under existing law. The report will also have to include (to the extent practicable) a projection of the tax expenditures resulting from the legislation over a period of five fiscal years.

EXCERPT FROM PUBLIC LAW 93-344—THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

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TITLE III—CONGRESSIONAL BUDGET PROCESS

Timetable

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
November 10	President submits current services budget.
15th day after Congress meets	President submits his budget.
March 15	Committees and joint committees submit reports to Budget Committees.
April 1	Congressional Budget Office submits report to Budget Committees.
April 15	Budget Committees report first concurrent resolution on the budget to their Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 15	Congress completes action on first concurrent resolution on the budget.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new spending authority.
September 15	Congress completes action on second required concurrent resolution on the budget.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution.
October 1	Fiscal year begins.

Adoption of First Concurrent Resolution

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

(1) The appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; and

(6) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The first concurrent resolution on the budget may also require—

(1) a procedure under which all or certain bills and resolutions providing new budget authority or providing new spending authority described in section 401(c)(2)(C) for such fiscal year shall not be enrolled until the concurrent resolution required to be reported under section 310(a) has been agreed to, and, if a reconciliation bill or reconciliation resolution, or both, are required to be reported under section 310(c), until Congress has completed action on that bill or resolution, or both; and

(2) any other procedure which is considered appropriate to carry out the purposes of this Act.

Not later than the close of the Ninety-fifth Congress, the Committee on the Budget of each House shall report to its House on the implementation of procedures described in this subsection.

(c) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before March 15 of each year, each standing committee of the House of Representatives shall submit to the Committee on the Budget of the House, each standing committee of the Senate shall submit to the Committee on the Budget of the Senate, and the Joint Economic Committee and Joint Committee on Taxation shall submit to the Committees on the Budget of both Houses—

(1) its views and estimates with respect to all matters set forth in subsection (a) which relate to matters within the respective jurisdiction or functions of such committee or joint committee; and

(2) except in the case of such joint committees, the estimate of the total amounts of new budget authority, and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within the jurisdiction of such committee which such committee intends to be effective during the fiscal year beginning on October 1 of such year.

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NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

SEC. 311. (a) LEGISLATION SUBJECT TO POINT OF ORDER.—After the Congress has completed action on the concurrent resolution on the budget required to be reported under section 310(a) for a fiscal year, and, if a reconciliation bill or resolution, or both, for such fiscal year are required to be reported under section 310(c), after that bill has been enacted into law or that resolution has been agreed to, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing additional new budget authority for such fiscal year, providing new spending authority described in section 401(c)(2)(C) to become effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of revenues set forth in such concurrent resolution.

(b) DETERMINATION OF OUTLAYS AND REVENUES.—For purposes of subsection (a), the budget outlays to be made during a fiscal year and revenues to be received during a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the Senate, as the case may be.

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TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

Bills Providing New Spending Authority

SEC. 401. (a) LEGISLATION PROVIDING CONTRACT OR BORROWING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, or amendment also provides that such new spending authority is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be requested for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day on which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

(c) DEFINITIONS.—

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this section, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under the Second Liberty Bond Act) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts; and

(C) to make payments (including loans and grants), the buget authority for which is not provided for in advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act); or

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act; or

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

Appendix B

Committee on Ways and Means March 15, 1983 and 1984, Reports to the Budget Committee

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D.C., March 15, 1983.

Hon. JAMES R. JONES,
Chairman,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Ways and Means, as required by section 301(c) of the Congressional Budget Act of 1974 on those aspects of the Federal budget for fiscal year 1984 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its deep concerns about national economic conditions in fiscal years 1984 and beyond. Large budget deficits have been projected, and we believe that serious bipartisan efforts must be made by the Congress to address them.

I. *Revenues.*—The Congressional Budget Office estimates fiscal year 1984 revenues at $654 billion. With the passage of H.R. 1900, revenues in fiscal year 1984 will increase by $5.2 billion. The Committee anticipates that it will be possible to enact legislation raising an additional $8.0 billion in revenues. Increases in revenues beyond this will be more difficult to achieve. As in prior years, this amount assumes $100 million of miscellaneous revenue and tariff measures will be accommodated.

II. *Outlays.*—The Committee on Ways and Means has jurisdictional responsibility over a broad range of programs with budget outlays classified in several different functional categories. With the anticipated passage of H.R. 1900, the Committee has already taken significant steps to reduce expenditures. Outlays will be reduced by $3.2, $3.7 and $6.2 billion for fiscal years 1984 to 1986 respectively. H.R. 1900 extends the Federal Supplemental Compensation program (FSC) until September 30, 1983. The Committee anticipates an extension of the FSC program that will affect the fiscal 1984 budget. Because of changing economic conditions, however, it is unable to provide a cost estimate of conditions. The Committee also anticipates amendments to the other benefit programs under its jurisdiction that will increase function 500 and 600 expenditures by a total of $0.5 billion in fiscal year 1984.

III. *Public Debt Limit.*—The Congressional Budget Office estimates that the fiscal year 1984 budget deficit will be $197 billion under current law. In the absence of any legislative action to reduce spending or increase revenues, the total deficit (including off-budget entities) is estimated by the CBO to be $218 billion which will require that the debt subject to statutory limit be increased to $1.562 trillion for the period ending September 30, 1984..

IV. *Tax Expenditures.*—The report on tax expenditures of the staff of the Joint Committee on Taxation which serves as the Joint Committee's report to the Budget Committee is appended to this letter and is designed to assist the Budget Committee in meeting its obligations under section 301(d)(c) of the Budget Act.

V. *Additional materials.*—To assist the Budget Committee in carrying out its responsibilities and help it in making assessments concerning the specific recommendations within the jurisdiction of the Committee on Ways and Means, I am enclosing a copy of Ways and Means Committee Print 98-2 entitled, "Background Material and Data on Major Programs within the Jurisdiction of the Committee on Ways and Means." In addition, I am also enclosing a copy of background document, "Description of the Administration's Fiscal Year 1984 Budget Recommendations Under the Jurisdiction of the Committee on Ways and Means." I hope you find this information useful. As always, the Members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI,
Chairman.

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, March 14, 1984.

Hon. JAMES R. JONES,
Chairman, Committee on the Budget, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Ways and Means, as required by section 301(c) of the Congressional Budget Act of 1974 on those aspects of the Federal budget for fiscal year 1985 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its deep concerns about national economic conditions in fiscal years 1985 and beyond. Large budget deficits have been projected, and we believe that serious bipartisan efforts must be made by the Congress to address them. As part of this coordinated effort, the Committee has reported a Committee amendment to H.R. 4170, the Tax Reform Act of 1984, which will increase federal revenues by $49.2 billion between FY 1984 and FY 1987. It is our expectation that this bill will be considered by the House of Representatives as soon as House action on the budget resolution is concluded. In addition, the Committee has approved other changes that will reduce outlays by $2.7 billion over the period in the following areas:

Fiscal years 1984–87

	In millions
Medicare (including physician freeze amendment savings of $848 million)..	−$1,794
Child Support Enforcement (H.R. 4325)	−216
Excise Tax Payment to Puerto Rico (H.R. 4170, Section 135)	−649

In developing the revenue raising aspects of H.R. 4170, the Committee has agreed on a bipartisan basis that the revenues raised by this bill must be utilized to reduce the staggering level of deficits and not for increasing outlays in other areas. To carry out this policy within our own jurisdiction, it is our intention that any further legislative action contemplated this year by the Committee would be deficit neutral, that is, proposals to decrease revenues or increase outlays would be offset in the same legislation by revenue raising or outlay reducing provisions of equal or greater amounts.

I. *Revenues.*—The Congressional Budget Office estimates fiscal year 1985 revenues at $733 billion. With the passage of H.R. 4170, revenues in fiscal year 1985 will increase by approximately $9.1 billion. This revenue figure accommodates continuation of the existing Committee policy to review temporary adjustment of provisions of the tariff schedules.

II. *Outlays.*—The Committee on Ways and Means has jurisdictional responsibility over a broad range of programs with budget outlays classified in several different functional categories. By approving section 135 of H.R. 4170, the Medicare provisions (originally included in Title X of H.R. 4170) as a title of an omnibus reconciliation bill, and H.R. 4325, the House-passed Child Support Enforcement Amendments of 1983, the Committee has already acted on major legislation to reduce outlays within its jurisdiction. H.R.

3755, the Disability Amendments of 1984, also has been reported by the Committee. It is estimated by the Congressional Budget Office that this legislation will increase outlays by an amount significantly less than the savings achieved by the Committee in other areas. As noted earlier, the Committee has taken the position that any additional legislative action beyond the above-stated bills will be balanced in a way which is neutral with respect to the budget deficit.

The Committee is also deeply committed to the goal that no additional cuts be made in the benefits provided through the means tested programs that serve the low income population. Consistent with this goal, the Committee believes that modest improvements in the Supplemental Security Income, Aid to Families with Dependent Children, Title XX—Social Services, and emergency assistance programs will be legislated that would be budget neutral but still make significant improvements in the lives of the most needy families and individuals.

In addition, the Committee authorizes appropriations for certain trade agencies and programs. For fiscal year 1985, the Committee has recommended authorizations of $642.4 million for the U.S. Customs Service; $28.4 million for the International Trade Commission; $14.2 million for the U.S. Trade Representative; $31 million for training under the worker trade adjustment assistance program; and $30 million for firm trade adjustment assistance.

III. *Public Debt Limit.*—The Congressional Budget Office estimates that the fiscal year 1985 unified budget deficit will be $194 billion under current law. In the absence of any legislative action to reduce spending or increase revenues, the total deficit (including off-budget entities) is estimated by the CBO to be $206 billion which will require that the debt subject to statutory limit be increased to $1.852 trillion for the period ending September 30, 1985.

IV. *Tax Expenditures.*—The report on tax expenditures of the staff of the Joint Committee on Taxation which serves as the Joint Committee's report to the Budget Committee and is designed to assist the Budget Committee in meeting its obligations under section 301(d)(c) of the Budget Act. This report will be transmitted to the Committee on the Budget as soon as it is completed and printed.

V. *Additional materials.*—To assist the Budget Committee in carrying out its responsibilities and help it in making assessments concerning the specific recommendations within the jurisdiction of the Committee on Ways and Means, I am enclosing a copy of Ways and Means Committee Print 98-22 entitled, "Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means." In addition, I am also enclosing a copy of background document, "Description of the Administration's Fiscal Year 1985 Budget Recommendations Under the Jurisdiction of the Committee on Ways and Means." I hope you find this information useful. As always, the Members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI, *Chairman.*

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